



The Lee Office Brief

Q4
2016

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- 4 SIGNIFICANT TRANSACTIONS
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155%
increase
in transaction
volume over 5 years

\$12+ billion
transaction volume
2015

Ranked 2nd
june 2016
Commercial Property Executive
(2016 Top Brokerage Firms)

887
agents
and growing
nationwide

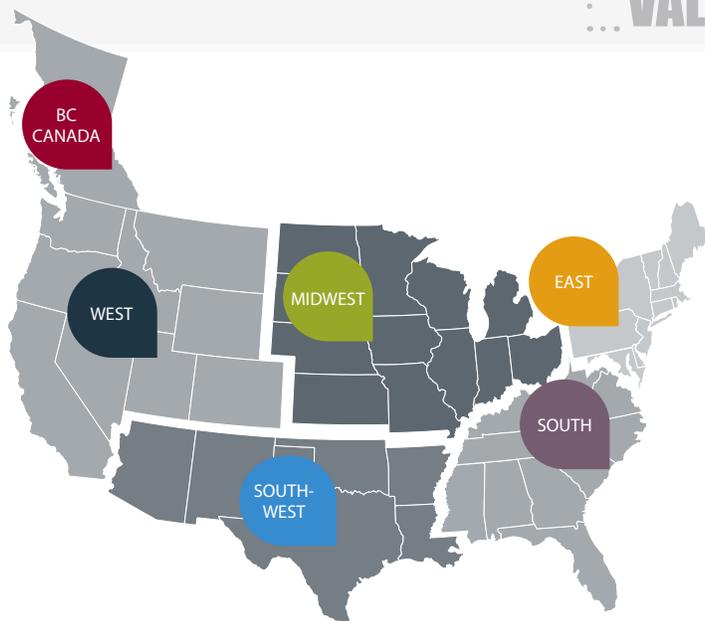
LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS.

At Lee & Associates® our reach is national but our expertise is local market implementation. This translates into seamless, consistent execution and value driven market-to-market services.

Our agents understand real estate and accountability. They provide an integrated approach to leasing, operational efficiencies, capital markets, property management, valuation, disposition, development, research and consulting.

We are creative strategists who provide value and custom solutions, enabling our clients to make profitable decisions.

OFFICE
INDUSTRIAL
RETAIL
INVESTMENT
APPRAISAL
MULTI-FAMILY
LAND
PROPERTY MANAGEMENT
VALUATION & CONSULTING



**THE POWER OF THE
LEE NETWORK**

Irvine, CA
Orange, CA
Newport Beach, CA
Ontario, CA
Riverside, CA
Los Angeles, CA
Industry, CA
Carlsbad, CA
Stockton, CA
Pleasanton, CA
West LA, CA

Sherman Oaks, CA
Central LA, CA
Temecula Valley, CA
Victorville, CA
Calabasas, CA
Los Olivos, CA
San Luis Obispo, CA
Ventura, CA
San Diego, CA
Reno, NV
Oakland, CA

Antelope Valley, CA
Santa Barbara, CA
Palm Desert, CA
ISG- LA, CA
Boise, ID
Long Beach, CA
Denver, CO
Pasadena, CA
Walnut Creek, CA
Seattle, WA

Phoenix, AZ
Dallas/Ft Worth, TX
Houston, TX

Chicago, IL,
St. Louis, MO
Southfield, MI
Madison, WI
Indianapolis, IN
Greenwood, IN
Cleveland, OH
Columbus, OH
Twin Cities, MN

Atlanta, GA
Greenville, SC
Fort Myers, FL
Orlando, FL
Charleston, SC
Valuation, Atlanta, GA

Elmwood, NJ
Manhattan, NY
Edison, NJ
Chesapeake Region
LI/Queens, NY
Eastern Pennsylvania

Vancouver, BC
Canada

US OFFICE MARKET

Office Market Remains Solid in Q4

After a sluggish start, the US office market picked up the pace in the middle quarters and finished the year with a solid and consistent performance across the board. In fact, the market has been remarkably steady since it began to recover in earnest back in 2011. Vacancy has declined back to levels not seen since 2007, rent growth has been steady and net absorption has remained well into positive territory. New deliveries are keeping pace with net absorption, limiting the chances of over-supply experienced in previous real estate cycles.

ECONOMIC DRIVERS

Click below for info on...

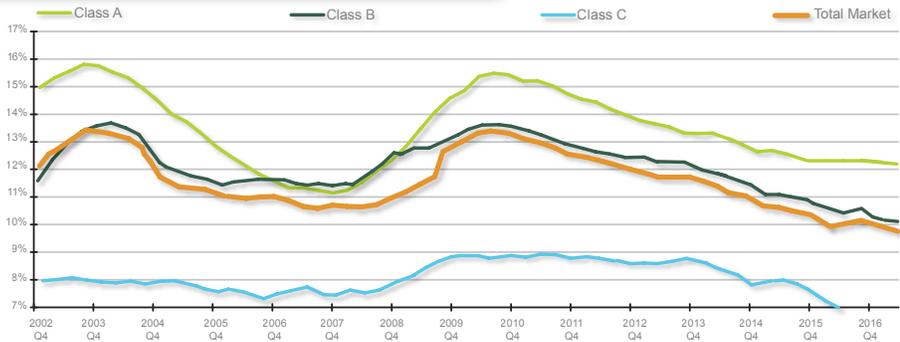
- A LOOK AHEAD
- GDP GROWTH
- EMPLOYMENT



MONETARY POLICY

All-in-all, the office market is generally healthy across the country in both primary and secondary markets and there are no clear signs of a disruption to current trend line.

VACANCY RATES BY CLASS 2001-2016

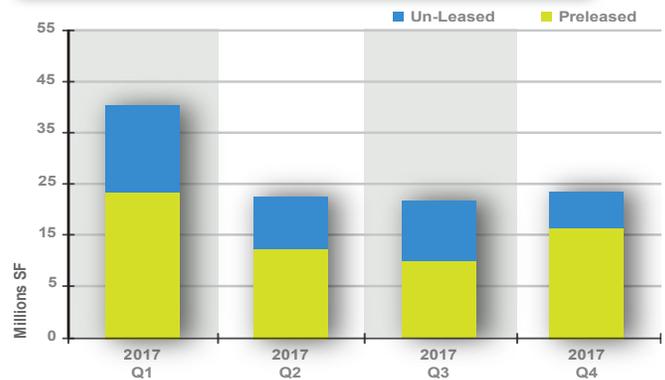


That doesn't mean the office sector is without its challenges. Older, less functional product, especially buildings not in proximity to public transportation, multifamily housing and other amenities preferred by a younger workforce, are faring poorly in many markets. Millennials are redefining the workforce by way of their strong lifestyle preferences, and landlords who don't or can't respond accordingly are being caught out.

Let's take a look at some numbers for the final quarter of 2016. Net absorption came in at 26.6 million square feet, a decline compared to a very strong gain in occupied space of 37 million square feet in each of the two previous quarters, but still solidly in positive territory. For the year, over 113 million square feet of net absorption was realized, which is further indication of the ongoing demand for office space nationwide. All but a

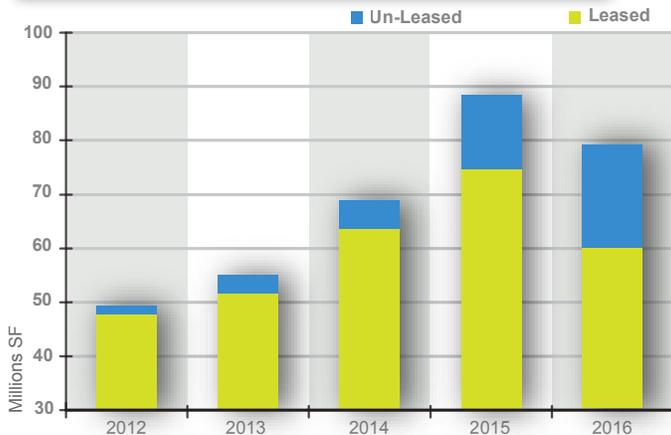
FUTURE DELIVERIES

PRE-LEASED & UN-LEASED SF IN PROPERTIES SCHEDULED TO DELIVER



RECENT DELIVERIES

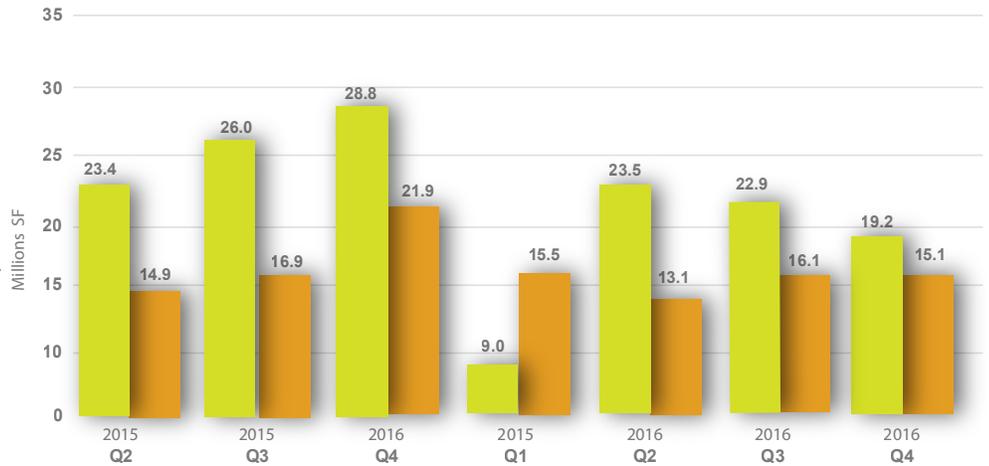
LEASED & UN-LEASED SF DELIVERIES LAST 5 YEARS



handful of US markets tracked by CoStar across the US posted positive net absorption in 2016. Only Houston and Chicago posted significant losses of 241,000 square feet and 979,000 square feet, respectively. Considering the massive impact of the energy market on Houston's local economy, it is easy to see how things there could be much worse.

Market leaders in absorption include the usual suspects like Boston at 4.4 million square feet, Los Angeles and Philadelphia at 4.1 million square feet, Dallas/Fort Worth and Phoenix, both at 4 million square feet, while tech hot spot Seattle/Puget Sound had a gain of 3.5 million square feet. Surprise performers for the year included Detroit at 3.6 million square feet and Salt Lake City at 3.5 million square feet. A major market posting a disappointing annual result was New York City, which had occupancy rise by just 201,000 square feet.

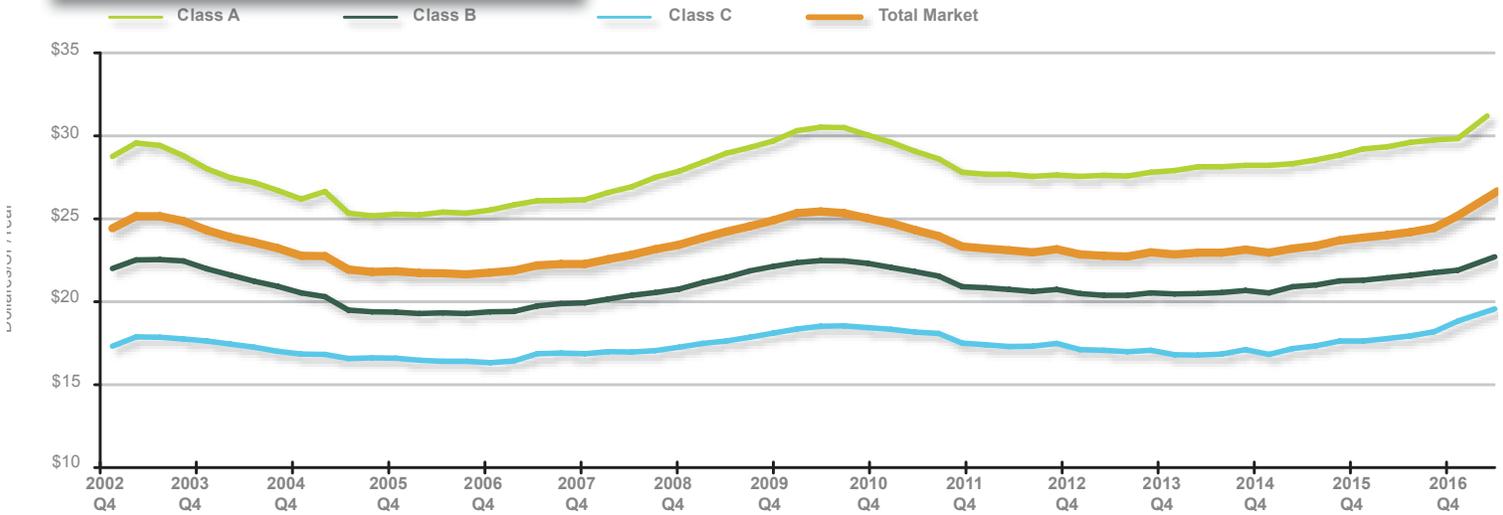
ABSORPTION & DELIVERIES PAST 7 QUARTERS



By building class, net absorption remains relatively well-balanced, as Class A, B product reported strong Q4 and full-year gains. In terms of Suburban versus CBD performance, over 82% of the Q4 net absorption was recorded in the suburbs, as many suburban submarkets are developing urbanized hubs that appeal to employers who are intent on satisfying the live, work and play lifestyle preferred by millennial generation workers. Average asking lease rates

for the US moved up again in Q4, adding another \$.32 to \$24.30 per square foot. That is a 1.3% increase in just three months. Rents are moving up in most office markets around the country, but there are significant differences in the trajectory of rent growth within local markets as tenants move between building classes and submarkets to realize operational efficiencies. Office occupiers across all sectors are finding new ways to leverage advances in communication and computing technologies in order to use less space. Markets with more active tech and healthcare sectors tend to see bigger rent gains, but energy markets are seeing rent declines, mainly due to large blocks of sublease space. Slack in space utilization will take some time to tighten up. So, even when oil prices rebound significantly, energy-heavy office markets will be playing catch up for a while.

HISTORICAL RENTAL RATES 2000-2015
BASED ON FULL-SERVICE EQUIVALENT RENTAL RATES



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The level of new deliveries has been remarkably consistent throughout the year. In Q4, 18.5 million square feet of new office space was delivered, compared to 21.2 million square feet in Q3, 20.3 million square feet in Q2 and 20.7 million square feet in Q1. This has allowed the market to grow steadily with minimal risk of overbuilding. The quarter ended with another 152.3 million square feet of space in the construction queue, with most of that total concentrated in the nation's ten largest markets. New York City is at the top of that list with over 15.2 million square feet underway. Dallas/Fort Worth is not far behind at 11.8 million square feet, followed by Washington DC at 10 million square feet and South Bay/San Jose (Silicon Valley) at 9.9 million square feet. Another tech-heavy market, Seattle/Puget Sound, rounds out the top five at just under 8.7 million square feet. The largest project underway in Q4 was the 3 World Trade Center tower in Manhattan. That building is set for delivery in early 2018.

In order to make projects pencil, developers are focusing on mixed-use projects in urbanized, amenity-rich areas that will bring the highest rents. Rising land and construction prices are outpacing rent growth in many markets and that has kept speculative office development to a minimum in all but the hottest markets.

Institutions and private investors are still making aggressive plays to acquire good quality office buildings. Cap rates have compressed into 4% for trophy properties. In January of 2016, CalPERS, one of the nation's largest public employee pension funds, acquired the 1.7-million-square-foot Equitable building in Manhattan at a price reported to reflect a 4.13% cap rate.

However, there are concerns about cap rates heading north, as a tighter monetary policy by the Fed, should start driving yields in other asset classes higher. Since March of 2016, the yield on the "riskless" 10-year Treasury has risen approximately 100 basis points to the 2.4% range. If that trend continues, cap rates are likely to move higher. A 50 basis point rise in cap rate in a 5%-cap world is not insignificant and is a fact not lost on investors already wary of buying in at the top of a cycle. If rent growth slows as it has in some markets across the country, the loss in property values could be substantial. The fact that foreign buyers keep pouring capital into US assets has kept the lid on cap rate decompression by keeping demand well ahead of supply. They like the idea of having their capital invested in a safe place in dollar-denominated assets.

A LOOK AHEAD

The US office market has good momentum heading into 2017, but concerns over a slowdown in US employment growth has more industry experts wondering if the market expansion is getting long in the tooth. Job growth in office-using sectors drive net absorption and the twelve month rolling average of jobs created each month has fallen from 229,000 to just 180,000 in the past year. Fortunately, office tenants are generating a good chunk of the new jobs, but other sectors that tend to hire more part time workers at the lower end of the pay scale are still accounting for too big a slice of the job creation pie. Wage growth has improved somewhat over the past few months, but an uptick in inflation is eating into those gains.

Rent growth will continue, especially in major markets where big employers continue their efforts to upgrade their workplace designs to attract and retain good workers who are, as a group, getting younger each day. Owners with older properties not in proximity to preferred amenities and public transportation will be under pressure to upgrade their buildings or be forced to lower rents and boost concessions. That will get expensive either way and those owners unable or unwilling to meet the demands of the market may become sellers at add-value pricing levels that reflect the additional risk.

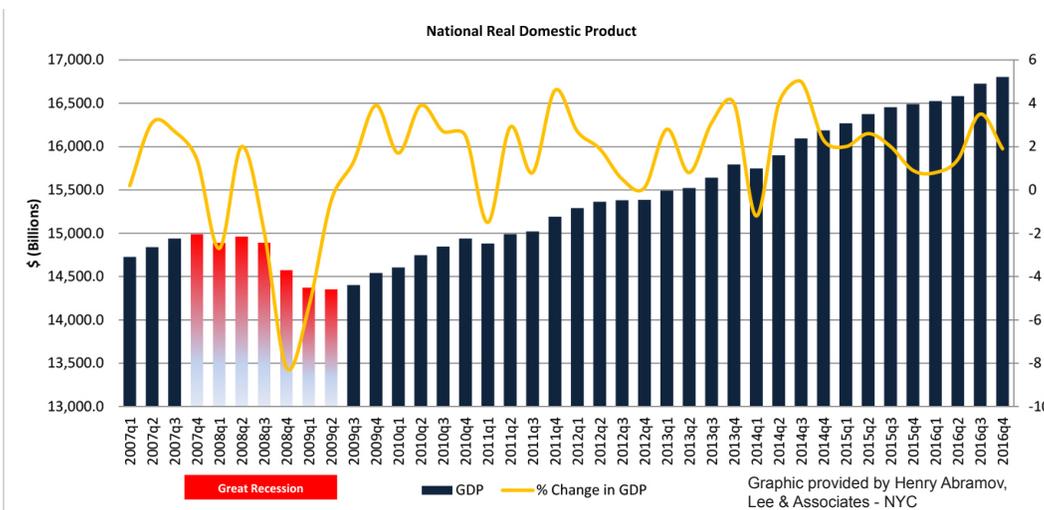
As we reported last quarter, there is little risk of a substantial increase in the pace of construction in 2017, so vacancy should continue to decline in 10-20 basis-point quarterly increments. Markets more dependent on the energy sector will see vacancy move in the other direction as sublease inventory swells further.

GDP GROWTH

US GDP, the primary metric for tracking the total output of US goods and services, is perhaps the most closely watched statistic in the world. Our economy is, by far, the largest on the planet and we also consume more foreign goods and services than any other nation. Whatever happens here at home, is felt and observed the world over.

Fortunately, US GDP growth picked up in Q3 after several dismal quarterly performances that had the domestic economy running just above stall speed. In Q1, the economy expanded by just .9%, followed by a disappointing 1.4% rate in Q2.

QUARTER-TO-QUARTER GROWTH IN REAL GDP



The third and final estimate of Q3 growth came in at 3.2%, which had investors breathing a collective sigh of relief. However, a rather obscure but important fact is that the export of soy beans resulting from a poor harvest in South America accounted for more than a fourth of that number.

Unfortunately, the first estimate of Q4 growth came in at just 1.9%, which left 2016 with a growth rate of just 1.6%. That is good relative to the rest of the world. Europe and Japan are still in tough shape, despite drastic monetary and fiscal measures to keep their economies from sliding into recession.

GDPNow, the Atlanta Fed's weekly index measuring GDP, currently estimates 2.9% growth for Q4. If that proves true, the US economy will at least surpass 2% growth for the year, which is weak, but still on the right side of the line. In 2015, GDP grew at a 2.4% clip.

Even with that decline, the US looks relatively good. Europe and Japan are still in tough shape, despite drastic monetary and fiscal measures to keep their economies from sliding into recession. The central banks in both regions continue their experiment in NIRP (Negative Interest Rate Policy) and they have ongoing and bond-buying programs to encourage businesses to borrow at low or negative rates. Even with all that meddling, GDP growth remains well under 2% in the Euro Area, and the unknown danger associated with unwinding the European Central Bank's monetary experiment is still looming. The Bank of Japan keeps printing money and buying bonds in such volume that it is running out of bonds to buy. So, it has resorted to buying equities to get the stimulus money placed.

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There is no denying the reality of globalization and things are not going well outside our borders. Political turmoil, civil unrest and economic challenges around the world weigh heavy on the minds of domestic investors, and most definitely figure into the strategy of our central bankers.

GDP GROWTH

The question that remains is whether or not US companies and consumers will accept the slower growth model as the “new normal” and act in a way that promotes further growth.

No discussion on economics can be had without considering the newest wild card in global economics: Donald Trump. The US President-Elect stunned the globe with a victory that odds-makers didn't see coming. Neither did Hillary Clinton and her followers, who woke up on November 9th in a world they least expected. Regardless of your political persuasion, there's no denying the immediate effects of the election. Equities markets soared on the expectation of lower corporate and personal income tax rates, reduced regulations and a huge infrastructure spending program. Of course, none of that has yet happened. Mr. Trump will have just taken the oath of office as this writing is released and he will only be beginning to navigate a political system designed to have big change occur over time. Checks and balances built into the US Constitution give the minority protection against being steamrolled. So, our new leader, who is used to calling all the shots when making business decisions, will need some time to acclimate to a different set of rules. But, the preliminary indication from the business world has been positive now that the reality of his victory is sinking in. What impact he can have on GDP in the short run is a complete unknown at this point, but the psychology of decision making going forward may be influenced by the prospects of a more business-friendly President.

Volatility in equities has been on the rise in 2016, as US companies grapple with sluggish market conditions. Corporate earnings have declined repeatedly the last six quarters and companies have been resorting to cost-cutting and stock buyback programs to increase profits and earnings per share. Reducing operating costs means job cuts and that means reduced consumer spending, which accounts for roughly 70% of GDP. Though, it is important to note that the most recent earnings cycle did show signs of improvement.

As we have pointed out all year, US consumers have been riding the brakes on spending. Retail sales growth, a large component of consumer spending, has been a problem and wage growth has been lagging behind previous economic recoveries, though it did spike in December to 2.9% year-over-year. Auto sales set a record, but most of a December increase can be attributed to incentives to move slow selling vehicles off the lots before the year ended. The bottom line on GDP is that it could go either way. If the Trump effect lasts for a while, business investment and consumer spending could build some momentum and those are the two main components of GDP. If that happens, however, the Fed will make more interest rate moves and that will strengthen the US Dollar and hurt exports, another key component of GDP.

EMPLOYMENT

Job growth is one the most perplexing of economic indicators, especially due to the fact that the U3 unemployment rate is the most widely quoted rate. The base for the U3 rate includes those who are employed and those who are unemployed but have actively sought employment in the last five weeks. We are not sure who made that one up, but we would sure like to know what the logic was. The U3 equation often produces counter-intuitive results. When job creation is good, those who have not been looking for work, re-engage in their search and are added to the total of those who are actively looking, increasing the number of unemployed workers and thereby raising the unemployment rate.

The U6 unemployment rate, presents a different story. It includes those working part time in their field of choice, who would prefer to be working full time, as unemployed. Many believe U6 metrics offer a more accurate employment picture. It does make clearer the frustration of many in the middle class who still feel like the recession never ended.

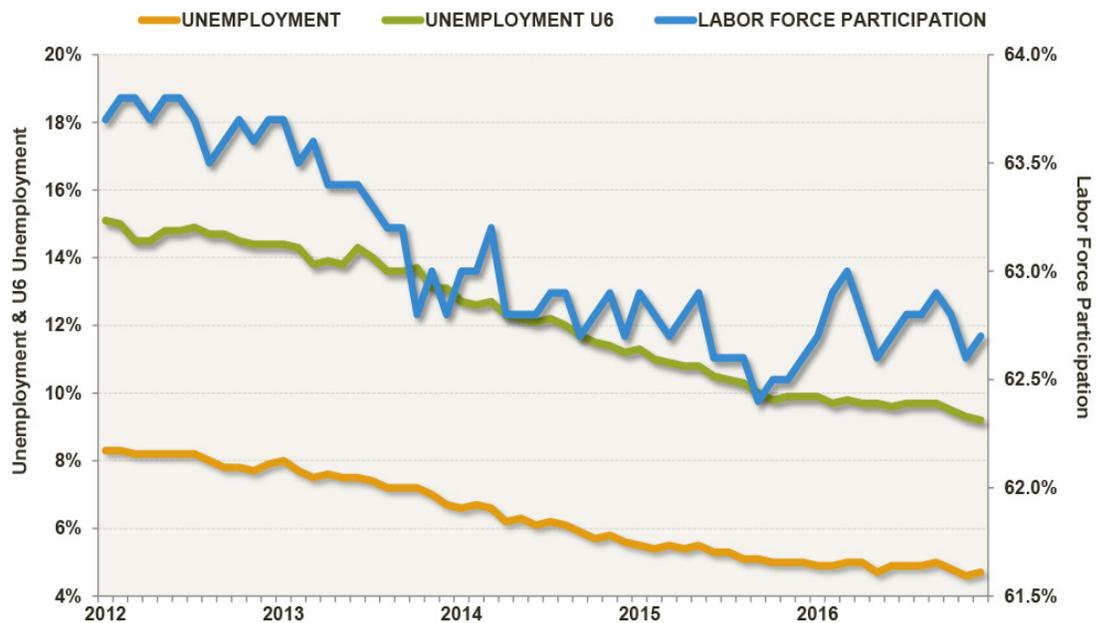
They are technically employed, but don't feel the impact of higher income. This is the group that may have turned the election for Mr. Trump.

U6 unemployment is currently more than double that of U3, at 9.7%. Job creation has been slowing over the past year. The 12 month rolling average has fallen to 180,000 per month from 229,000; not an insignificant number and important to note that it includes part time jobs, most of which are at or near

minimum wage. Q4 started strong with a total new job count of 161,000. November hit 178,000 and December came in under estimates at 156,000. The low point for 2016 came in May when only 11,000 new jobs were recorded. The best month of the year thus far came in June, when 271,000 new jobs were created. Wild swings in job growth affect current and future consumer spending, prompting CEOs to be more cautious and less inclined to implement aggressive growth strategies.

Despite erratic job growth numbers, the U3 unemployment rate for December came in at 4.7%, which is generally indicative of a fully employed economy. However, that number is deceiving because so many of the jobs being created are either part time or at the lower range of the wage scale.

NATIONAL UNEMPLOYMENT



EMPLOYMENT

The cost of health care pursuant to the Affordable Care Act (ACA) is also contributing to part time employment problem, as employers are inclined to hire workers just under the 30 hour per week threshold that would require them to provide health benefits. The new administration has vowed to repeal and replace the landmark legislation, but that could take years to make happen, if it ever does. Too much water may have flowed under that bridge already.

The Labor Participation Rate, the metric that measures the percentage of those eligible for employment between the ages of 16 and 64 who are currently working, also remains stagnant. Choppy job growth reports and the early exit of Baby Boomers, have combined to keep just 62.7% of potential workers in active production. It is important to note that Labor Participation has moved off a five decade low, but it may head down again in the next few years as the rate of early-retiring Baby Boomers increases.

Lagging wage growth is another problem that has dogged the US economy in this recovery. Full-time, high-paying jobs are in short supply and wage growth overall is tracking at a rate that finally rose to 2.9% in December. If you are making a middle income wage, a 3% increase may not change your spending habits. Half of that increase will cover inflation, leaving the other half for discretionary spending. That kind of wage growth offers little relief to workers at or near the minimum wage level who are struggling to make ends meet. It's no wonder that so many middle class workers are disillusioned with a recovery that they feel has left them behind.

Layoffs in the energy sector have not helped the job picture, either. More than 700,000 full time positions have been eliminated since oil prices declined sharply back in 2014. Many of those jobs were high-paying technical positions that are not easily replaced in other business sectors like technology and business services that have contributed most to recent job gains.

MONETARY POLICY

After a year of sending cryptic mixed signals, the Fed finally stepped up in December and bumped up its benchmark Fed Funds Rate by another 25 basis points to .75%. By historical standards, that is still a very low number, and it will take a sustained series of quarter-point increases to reverse the activist stance of our central bank. Since the financial crisis that began at the tail end of 2007, the Fed has been heavily involved in manipulating the cost and flow of capital, more so than at any other time in its 100+ year history. Many have warned that the Fed has too much influence on the direction of the overall economy. Some believe our central bankers were caught off guard when their first move on rates roiled world markets and sent the US Dollar soaring back in January of 2016. A strong dollar makes US exports more expensive and raises the cost of paying back dollar-denominated loans for borrowers around the world. Simply

US TREASURY RATES IN PERCENTAGE

Interest Rates

Daily Treasury Yield Curve Rates

One-Year Treasury

- Rate on Dec. 30, 2016: 0.85%
- 10-Year Average: 0.87%

Five-Year Treasury

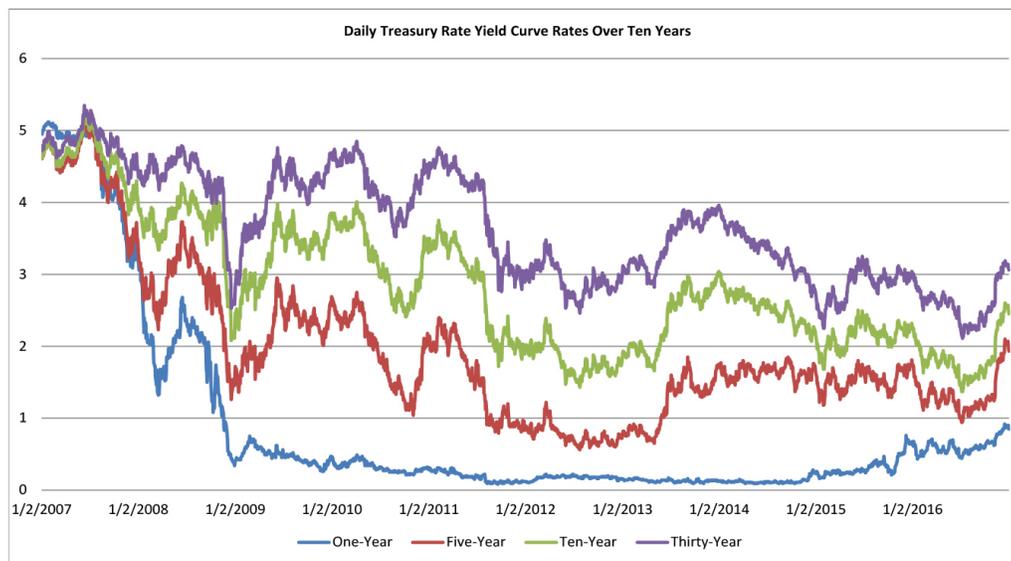
- Rate on Dec. 30, 2016: 1.93%
- 10-Year Average: 1.93%

Ten-Year Treasury

- Rate on Dec. 30, 2016: 2.45%
- 10-Year Average: 2.82%

Thirty-Year Treasury

- Rate on Dec. 30, 2016: 3.06%
- 10-Year Average: 3.65%



put, the world threw an economic fit and central bankers around the globe pleaded with the Fed to forestall further increases until the global economy improved.

It took several months for things to settle down, but Ms. Yellen and her colleagues were spooked away from raising rates for the rest of the year. Yield-chasers poured money back into the equity markets and the January slide turned into a bull run that was turbocharged by Trump's surprise win in November.

Meanwhile, central bank policy around the world has been going the other way. The European Central Bank has taken its benchmark rate into negative territory, as has the Bank of Japan. That means that borrowers get paid for borrowing money, which is counter-intuitive at a minimum. Both those central banks are buying corporate bonds in addition to their own sovereign debt, raising further concerns over the long term consequences of actions that are based on unproven economic models.

MONETARY POLICY

The Bank of Japan is even buying individual stocks, an action that would be against the law for our Fed. Critics of central bank policy are calling out individual central bankers for doubling down on failed policies to save their academic reputations. That argument may just have some merit.

The good news about the most recent move by the Fed is that it gave itself a little room to work with if the economic recovery does stall. With GDP growth so weak in the first half of 2016, concern a possible recession was on the rise.

Fortunately, Q3 growth improved, but the first estimates for Q4 came in at a disappointing 1.9%. Hopefully, the Fed can follow through with further rate hikes in 2017 to move further out of the corner it painted itself in to over the past 10 years. If not, it could run out of ammunition to stimulate growth and be forced into the uncharted waters of negative interest rates.

Trump's promise of a massive infrastructure investment has buoyed hopes that the Federal government will help out on the fiscal side of the equation, and not continue to leave all the heavy lifting up to the Fed. But, that means bigger federal deficits that are already on their way back to over \$1 Trillion per year. Bottom line: the Fed still has itself in a pickle and is short on ideas to get the economy back on a track of healthy growth. The takeaway might be that the Fed has reached the limits of its effectiveness, and that might get investors more focused on markets themselves rather than what impact Fed action will have on those markets. We'll just have to see if we are really open to learning that lesson.

Real estate borrowers are still the beneficiaries of the Fed's current monetary policy direction. Mortgage rates have remained at historic lows, but they have begun to move up. Most commercial property lenders use a spread over the yield on the 10 Year T-bill to set mortgage rates, and that yield has risen by over 50 basis points since the election. Long-term loans are still readily available, but underwriting is tightening up and interest rates have already moved higher. The Fed's willingness to make another move up in the short term will be a signal for long term lenders to get more aggressive with further rate hikes of their own. For the moment, it's still a good time to borrow money.

Nothing against Ms. Yellen and her Board of Governors, but it would sure be nice if they were off the front page every day.

GLOBAL ECONOMY

In the past two quarters we have been describing the global economic outlook as troublesome. We still do, but we can point to at least some improvement around the world. The panic over the Brexit vote was short-lived. It didn't take long for world markets to absorb the news. There's a long way to go, but the UK's exit from the EU is drawing much less attention now. The British Pound took a beating, but that may also be short-lived, once the actual process ramps up this spring.

When the UK made its surprise decision, the long term survival of the EU became a major topic. Europe's political union is still in crisis mode and without a governing body with the real authority to enforce anything, it will likely remain so. Sovereign debts keep rising, unemployment is persistently high and GDP growth in Europe is nearing recession territory, despite the aggressive monetary policy of the European Central Bank. Calls for fiscal austerity have been largely ignored, and the ongoing refugee crisis has whipped up nationalist fervor throughout Europe. The Euro and British Pound have taken a beating.

EURO AREA REAL GDP² (QUARTER-ON-QUARTER PERCENTAGE CHANGES)



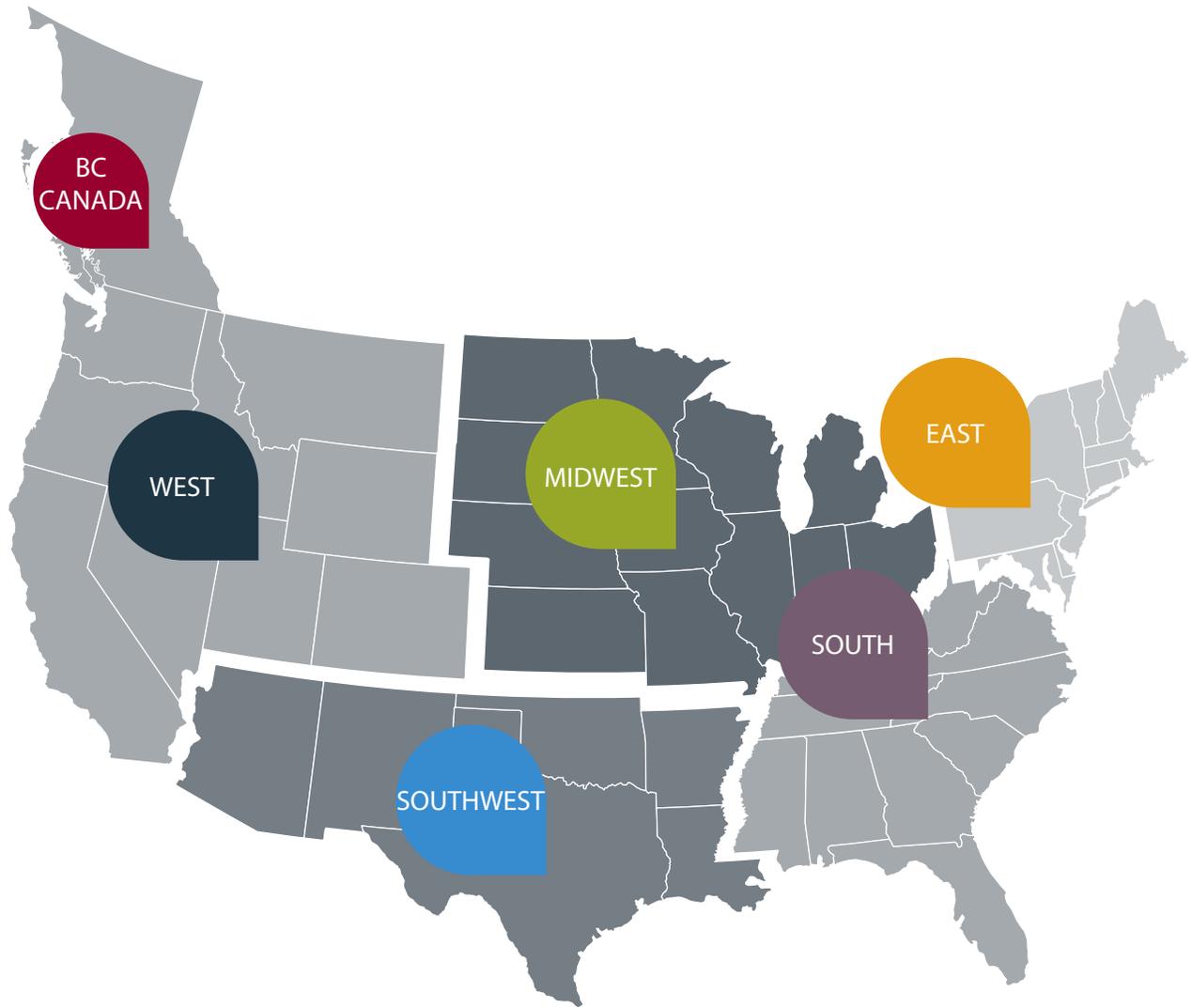
Energy exporting nations are still hurting due to the sharp decline in oil prices, but the recent OPEC agreement to cap production has sent the price of a barrel of oil back above \$50. Though, oil is transacted in dollars and the dollar strengthened against other currencies. So, the effect of the price gain may be partially offset. Non-OPEC producers like Russia and Venezuela have also shown a willingness to cap production in order to bring supply and demand into better balance. At the same time, US production looks to be ramping back up, as evidenced by an increase in rig count over the past several months.

As the price of a barrel of oil goes up, more wells can turn a profit. For now, supplies are still running ahead of demand and recent agreements essentially cap production at current levels in the hope that an increase in demand from economic expansion over time will eventually absorb excess supply.

Oil-rich Middle-Eastern countries, including Saudi Arabia, are burning through cash reserves to cover revenue shortfalls precipitated by the falling price of oil. China is issuing sovereign bonds to help it cope with its massive transition from total dependence on the exportation of manufactured goods.

None of this sounds like good news and that is undeniably correct. However, the US economy is in much better shape relatively speaking. Once again, the world views the US as the safe haven of choice. That keeps capital moving into the US and much of that finds its way to the commercial real estate market. In fact, foreign demand for US real estate assets continues to contribute to gains in asset prices, as it increases competition in all product types. Foreign investors are willing to pay a premium to assure the preservation of their capital.

Key Market Snapshots



EAST BAY/OAKLAND
LA NORTH
ORANGE COUNTY
SAN DIEGO
DENVER

ST. LOUIS
MADISON

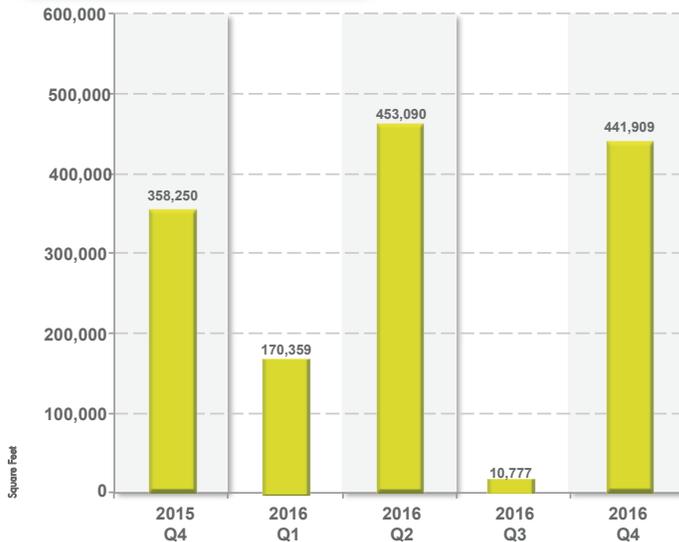
ATLANTA
CHARLESTON
GREENVILLE/SPARTANBURG

PHOENIX
HOUSTON

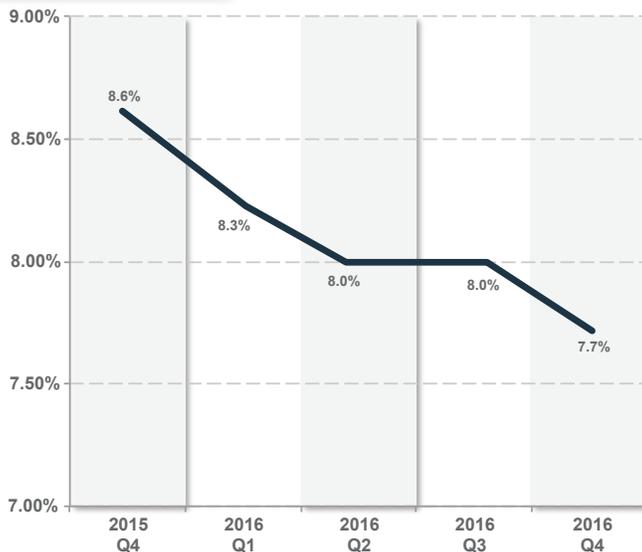
NORTHERN NJ
COLUMBIA/MARYLAND
MANHATTAN

EAST BAY / OAKLAND

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 10,000 square feet

TRENDING NOW

The Oakland/East Bay area's proximity to the two hottest tech markets in the country continued to boost office property performance in 2016. The City of San Francisco and the counties of Santa Clara and San Mateo have been riding another wave of tech sector expansion for the past several years. Rents, absorption, leasing activity and vacancy have all improved dramatically as established players like Google, Apple, Oracle and others in the tech world have been expanding rapidly. Start-ups have added more fuel to the fire, as they introduce new technologies and create more competition for space. Fortunately, the Oakland/East Bay market is also benefitting from tech activity, as higher prices and short supply across the bay make the region more attractive to expanding companies in need of space.

Positive net absorption in the Oakland/East Bay market reached nearly 442,000 square feet in the fourth quarter of 2016, bringing the annual net gain in occupied space up to 1,076,000 square feet. Over 634,000 square feet of that total occurred in Class A buildings, while just 158,000 additional square feet was absorbed in Class B. Class C, much of it older product, managed to add nearly 284,000 square feet to occupied space for the year.

With San Francisco's lease rates rivaling those of Midtown Manhattan, tenants have been looking across the water for relief, driving rents in the Oakland/East Bay market higher in the process. The average asking lease rate for the region at year-end stood at a \$30.58 per square foot, up a whopping \$.69 in a single quarter. In the past year asking rents for all building classes combined rose by 13.7%. Class A rents moved up \$6.27 year-over-year to 39.80, while Class B rents by 16% to \$28.21.

Clearly, it's a good time to be a landlord, especially if you didn't just buy the building at a premium and need similar rent increases going forward.

7.7%

VACANCY

\$30.58

AVG. SF RENTAL RATES

441,909

NET SF ABSORPTION

110,248,143

SF INVENTORY

765,698

SF UNDER CONSTRUCTION

Key Market Snapshots

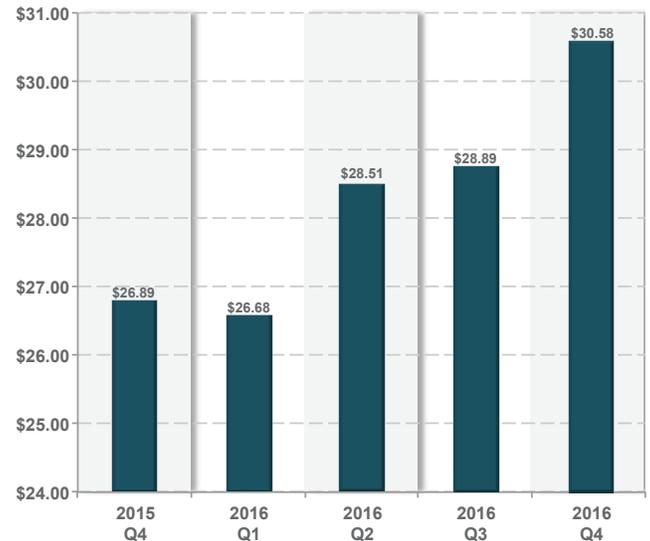
EAST BAY/OAKLAND - TRENDING NOW
(continued)

Property owners in the Oakland CBD are even in a stronger position to demand longer terms and higher rents, as vacancy there has dropped to just 2.5%. Tenants, on the other hand, are concerned that the longer lease terms will have them paying above market rents when the market cycles back down. It is important to note that the entire San Francisco Bay Area has experienced bigger market swings in the past compared to other major metro areas due to the heavy influence of the tech sector.

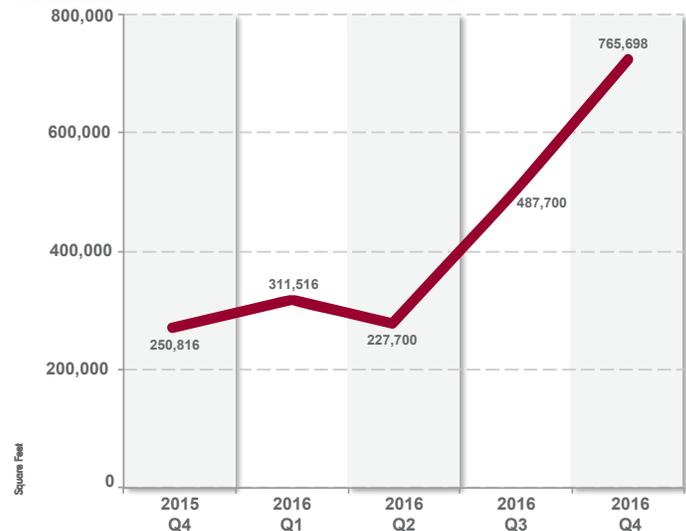
The overall vacancy factor fell by 90 basis points year-over-year to end 2016 at 7.7%. In Q4, vacancy fell by 30 basis point after remaining unchanged in the middle quarters. Class A stood at 7.5%, an 80 basis point annual decline, while Class B ended at 9.4%, up 10 basis points in Q4, but 40 basis points lower year-over-year. Just two years ago vacancy in both classes were nearly equal.

Development of speculative office space is getting closer, but is still not expected to have a significant impact in 2017, as rents are still well under the threshold to make new projects viable, and construction costs are just as high on both sides of the bay. Substantial preleasing would be required to anchor new construction, but that remains a possibility if tech users, squeezed out of opportunities in San Francisco and Silicon Valley, continue to look at the area as a viable option.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

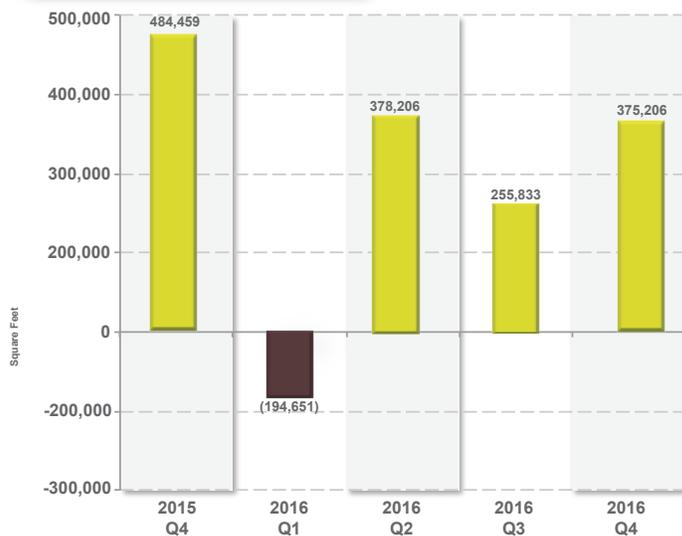


A LOOK AHEAD

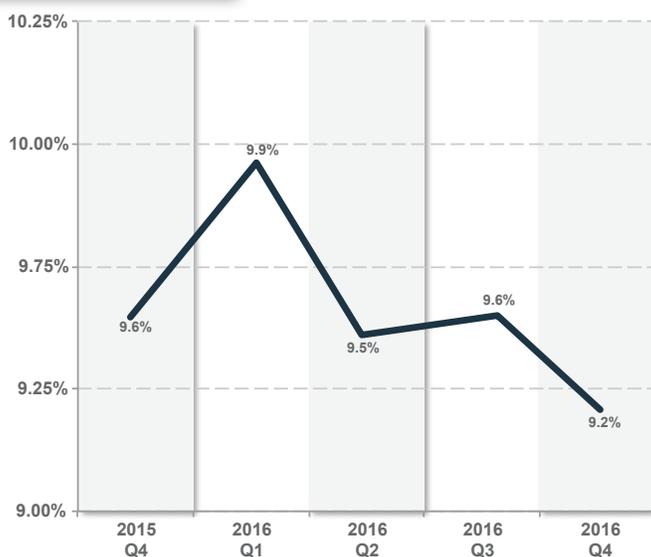
- Lease activity will remain strong especially for quality product within walking distance from BART
- Vacancy will remain near current levels throughout the year
- Time-on-market for functionally obsolete space will increase, but quality space will move fast
- Development activity may pick up in 2017, as lease rates edge closer to levels needed to make new spec construction viable
- Net absorption will moderate due to supply constraints
- Asking rates will keep moving higher due to low vacancy

LOS ANGELES - NORTH

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 10,000 square feet

TRENDING NOW

Leasing maintained momentum in the fourth quarter, pushing the vacancy rate down another 40 bps to 9.2%. Leasing velocity has now surpassed 1,000,000 square feet in each of the past four quarters as the Los Angeles North office market fully rebounds. Roughly half of the activity each quarter is occurring in Class A space, signaling that tenants are no longer looking strictly for bargains, and are focusing on project and location amenities.

Net absorption improved by more than 100,000 square feet in Q4 to 375,206 square feet. Year-over-year net absorption declined by a similar amount when all office space is considered. However, modest improvements in Class A absorption levels have continued, increasing to 217,464 square feet in Q4 versus 191,807 square feet in Q4 of 2015.

Along with sustained leasing momentum, the market has seen a surge in office investment activity that reinforces everything we have been reading about renewed investor interest in suburban office markets. Several large and high-profile office acquisitions were completed in the quarter, bringing players from as far away as New York City. Among them was Academy Tower, a 174,000-square-foot Class A office building in the NoHo Arts District at the eastern end of the San Fernando Valley, which sold to Swift Real Estate Partners, a San Francisco area investment firm for \$61,500,000 or \$353 per square foot. Angelo, Gordon & Co. a New York-based investment firm partnered with Lincoln Property Company out of Dallas, to acquire LNR Warner Center IV, a low-rise office campus at the western end of the Valley. The 510,000-square-foot project sold for \$147,000,000 or \$288 per square foot.

These two transactions come on the heels of the acquisition of the 14-story Tower at Sherman Oaks, a central San Fernando Valley office building, for \$56.7 million or \$338 per square foot by Sandstone Properties in Q3.

9.2%

VACANCY

\$29.52

AVG. SF RENTAL RATES

375,206

NET SF ABSORPTION

84,541,745

SF INVENTORY

0

SF UNDER CONSTRUCTION



Key Market Snapshots

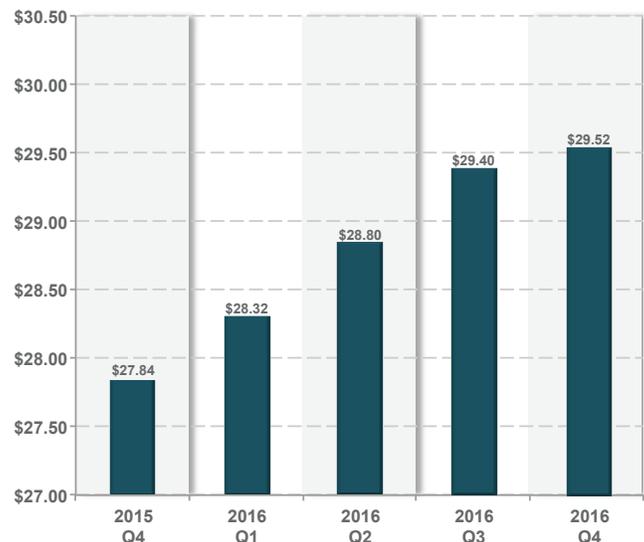
LA NORTH - TRENDING NOW
(continued)

In these cases and in other acquisitions in neighboring Conejo Valley, the buyers plan to reposition or expand project size. Swift expects to refurbish and raise rents; the Angelo, Gordon/Lincoln JV will develop a 7,500 retail building previously entitled on the property; and Sandstone expects to reposition the asset it acquired for creative office use.

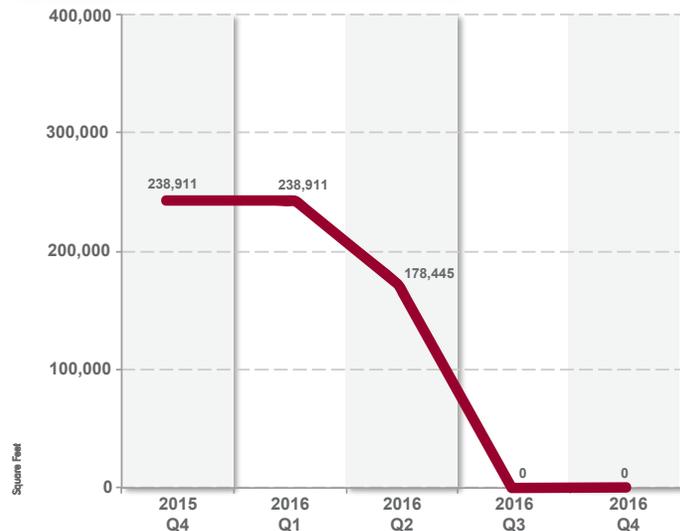
The heightened investor interest in Los Angeles North office properties reflects a belief that the market will increasingly be made up of TAMI tenants (technology, advertising, media, Internet) with different space utilization needs from traditional office space users. TAMI tenants have shown a willingness to pay higher lease rates for space that appeals to the younger workers they need to recruit and retain. Where TAMI tenants dominate in many Westside Los Angeles submarkets, asking rates average \$53.70, and although the LA North region is not likely to catch up to those levels anytime soon, there is clearly greater potential for rent growth in submarkets such as NoHo, Warner Center and Sherman Oaks that share many characteristics with CBDs.

Although development remains limited by the availability of land and a continued preference for the returns available in the multifamily sector, ground was broken on a project that seeks to mirror the campus style of Playa Vista in West Los Angeles. MGA, makers of Bratz dolls, is redeveloping a 24-acre campus that once housed the LA Times printing plant in the Chatsworth submarket. The project includes office and retail space as well as apartments and gathering places as part of an overall plan to create the kind of live-work-play environment pioneered by the likes of Google and Apple.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



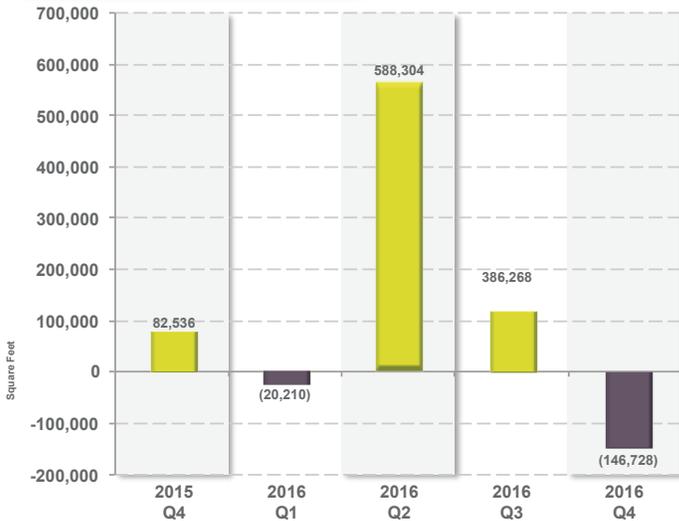
A LOOK AHEAD

- Leasing activity should continue at current levels, especially in primary submarkets
- Vacancy rates should decline an average of 20-30 bps per quarter in 2017
- Rent growth will moderate in the coming quarters
- Office development will be displaced by multi-family projects, although isolated medical office projects will move forward
- Net absorption will remain near current levels

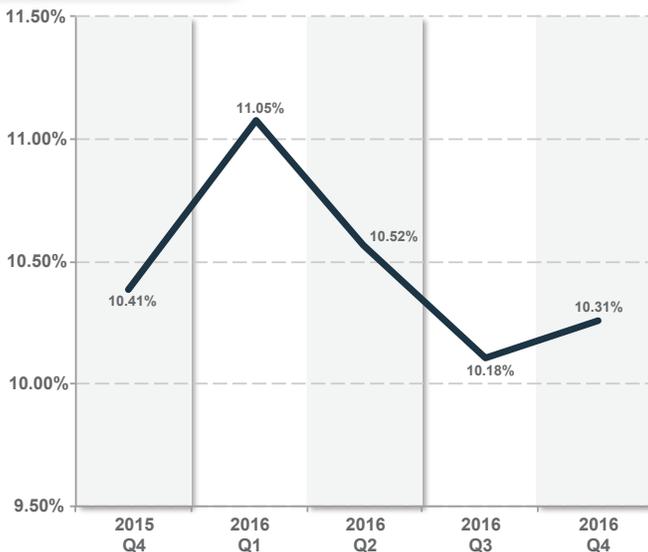


ORANGE COUNTY

NET SF ABSORPTION*



VACANCY RATE*



* buildings with a minimum of 30,000 square feet

TRENDING NOW

Orange County's regional economy is among the healthiest in all of California. Job growth has been steady, with significant gains coming from office-using sectors like professional services, technology and healthcare. The unemployment rate stood at 3.5% in December, down 60 basis point year-over-year and well below the national rate of 4.7%.

Demand for office space in the county remained generally healthy in 2016, but results were mixed. The vacancy rate declined to 10.3% by the end of the year on an inventory base of 111.3 million square feet, but rent growth slowed over the course of the year.

In terms of net absorption, it was the South County submarket that led the way with a net gain 649,457 square feet. In the larger Airport submarket, which accounts for 38% of the county's inventory and much of the county's Class A space, annual net absorption was negative for the first time since 2010. For the year, a net loss of nearly 96,000 square feet was recorded. North County finished the year adding 192,000 square feet to occupied space, and West County added another 67,000. Central County absorption was flat on a base of over 22 million square feet.

Class B space – which accounts for roughly half of the county's inventory, dominated in terms of net absorption and kept the overall office market from slipping into the red for the year. Class B space posted four straight quarters of gains to finish the year with 799,003 square feet of net absorption.

Growth in average asking lease rates also slowed in 2016, increasing just 3.7% for the year compared to 7.3% in 2015. Gains in asking rates on Class A space fared better, however, rising 6.6% in 2016 versus 7.5% in 2015.

10.31%

VACANCY

\$29.04

AVG. SF RENTAL RATES

(146,728)

NET SF ABSORPTION

17,458,244

SF INVENTORY

2,389,554

SF UNDER CONSTRUCTION



ORANGE COUNTY - TRENDING NOW (continued)

For Class B space, increases in asking lease rates averaged 2.8% in 2016, well short of 5.8% gain recorded in 2015.

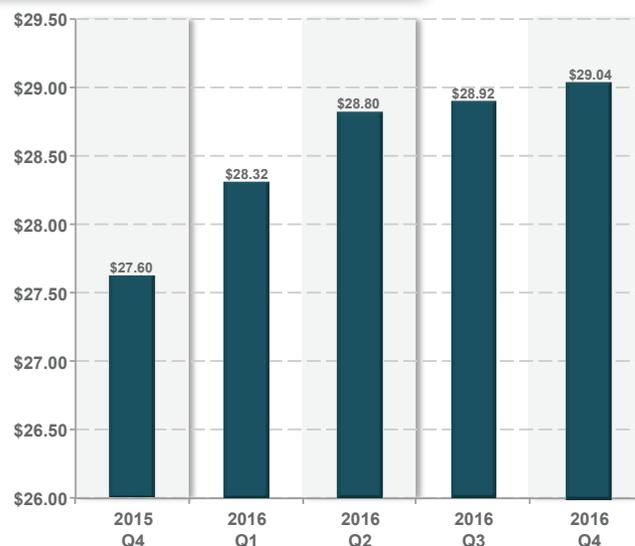
The five cities with the largest office inventories, which includes Irvine, Newport Beach, Santa Ana, Anaheim and Costa Mesa, account for roughly 65% of the county's total space. That group combined to absorb almost 711 million square feet in 2016.

The 34.1-million-square-foot Irvine office market reported 158,193 square feet of net absorption for the year. Vacancy there stood at 8.8% vacancy rate, up a full percentage point since the end of 2015, mainly due to the delivery of 754,736 square feet of new space during the year. Average asking rents climbed 4% year-over-year.

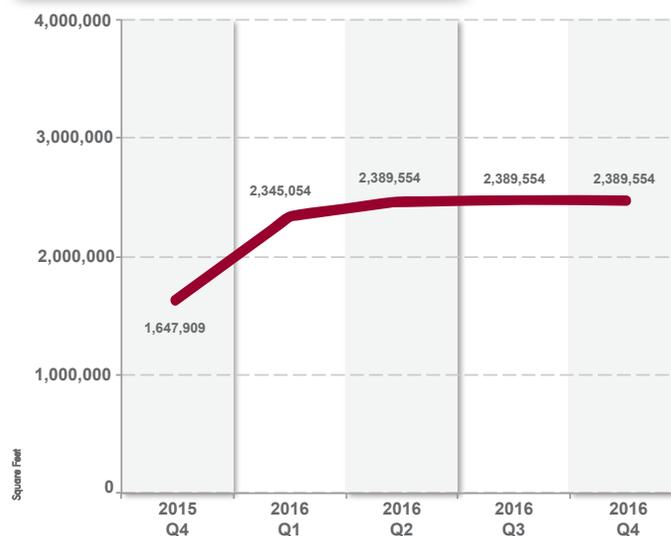
Newport Beach, which includes most of the county's premium buildings in its 9.4-million square foot inventory, posted a year-end vacancy rate of 8.4%, down from 10.27% at the end of 2015. Asking rents jumped by 17% year over year.

In Santa Ana, with 14.2 million square feet in 159 buildings, the year-end vacancy rate fell from 17.5% at the end of 2015 to 15.3% in 2016 on 147,968 square feet of positive absorption. Anaheim's vacancy rate fell from 13.5% in 2015 to 10.3% on 102,579 square feet of positive absorption. Average asking rents increased 3.9%. Costa Mesa's vacancy rate ended the year at 12.7% on 139,068 square feet of positive absorption but average rents declined 1.6%

AVERAGE SF RENTAL RATES*



SF UNDER CONSTRUCTION*



* buildings with a minimum of 30,000 square feet

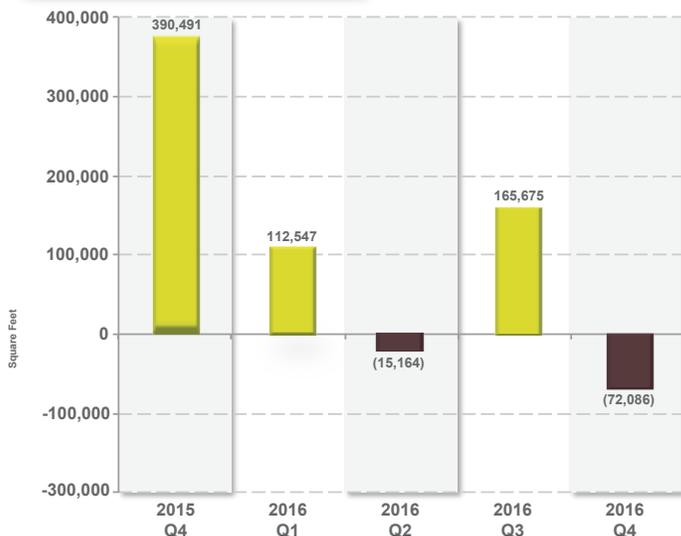
A LOOK AHEAD

- Rent gains will be highest in buildings offering creative space
- Cap rates will drift higher if the Fed follows through with further rate hikes
- Vacancy should continue to decline, but may tick up temporarily as new product is delivered
- Construction activity will be highest in the Airport and South County submarkets
- The unemployment rate will continue its decline as county job growth is expected to reach 37,000 in 2017

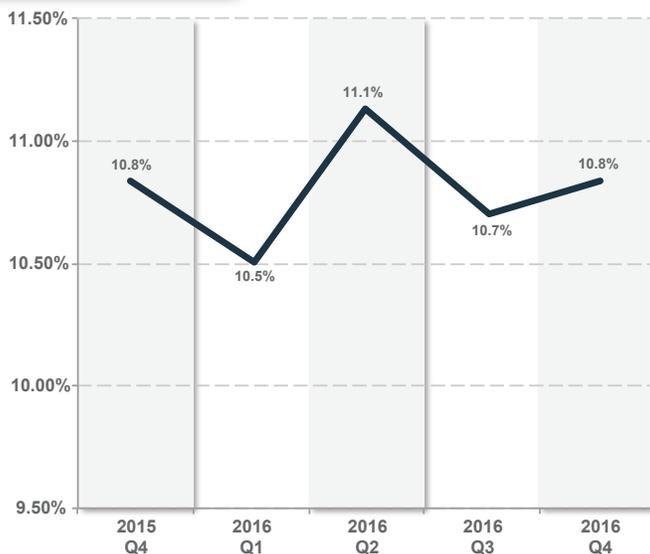


NORTH SAN DIEGO

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

San Diego's balance of business sectors make it the envy of major markets across the country. San Diego has strong defense, life science and aerospace manufacturing sectors that each generate thousands of high-paying, full-time jobs every year. The area is also a center for human genome research and drone manufacturing, making clear the diversity, education and varied skill sets of the county's workforce. Add the high quality of life component and the full spectrum of housing alternatives and it's no surprise that the San Diego economy is outperforming most of California's 58 counties.

Office leasing activity remains strong throughout the San Diego area. Even areas hardest hit by the last market have returned to good health. The countywide vacancy rate for all building classes moved another 50 basis points lower to 10.0% in Q4, which is lower than it was at the previous market peak back in 2007. Class A vacancy is slightly higher at 10.7%, but was also down 20 basis points for the period. Class B posted a 50 basis point decline to 10.9%. Landlords have responded to tightening conditions by reducing concessions like free rent and tenant improvements.

The North County region in particular, the area that includes the SR-78 and I-5 corridors along with outlying areas of north and central San Diego, is improving at a more moderate pace. Vacancy there ticked up 10 basis points in Q4 to end the year at 10.8%, unchanged year-over-year. Net absorption was positive over the past four quarters, but turned slightly negative in Q4, posting a loss of over 72,000 square feet. No new space in North County has been delivered since Q2 of 2016 and just 305,268 square feet is under construction there. So, vacancy is expected to move down with greater consistency in 2017. The North County area contains 35 million of the 113.8 million square feet of office inventory in all of San Diego County.

10.8%

VACANCY

\$29.28

AVG. SF RENTAL RATES

(72,086)

NET SF ABSORPTION

35,010,611

SF INVENTORY

305,268

SF UNDER CONSTRUCTION



Key Market Snapshots

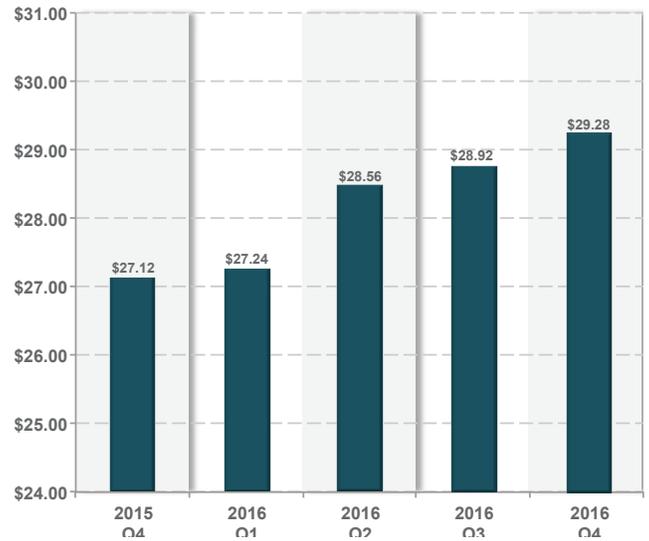
NORTH SAN DIEGO - TRENDING NOW
(continued)

The North County office market is driven by the rapid expansion of the biomedical industry and tech consulting sectors. The growth rate of each is outpacing that of the rest of the economy. Tech companies are looking for workplace designs that appeal to younger employees while maintaining a polished executive environment. As a result, both Class A and B buildings that are richest in amenities within walking distance are seeing the strongest rent growth. So, buildings in both asset classes are being retrofit to creative space to boost net operating income.

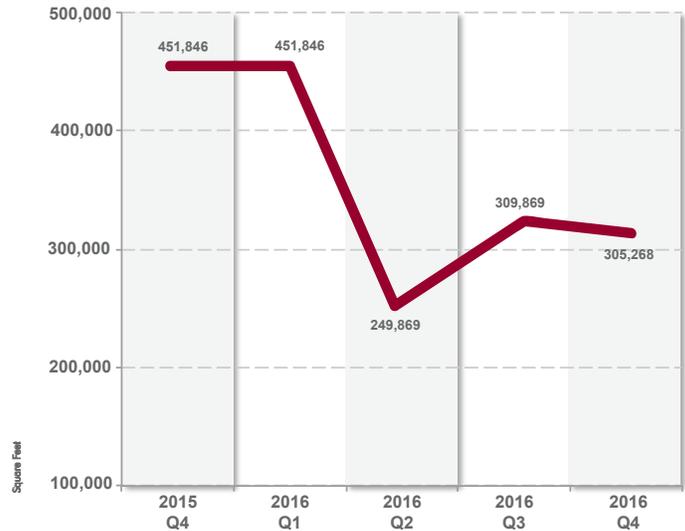
Average asking lease rates across all building classes jumped \$.57, or 1.9%, to \$31.08 per square foot in Q4. Class A rents rose another \$.19 to \$37.29, which is now well-above the peak rate back in 2007. Strong rent growth in Class A, has given the owners of Class B buildings a welcome income boost. After a huge gain in Q3, Class B asking rates rose another \$.62 in the final quarter to a post-recession high of \$29.10. However, that is still \$.45 under the previous market peak.

North County overall asking rents have risen modestly by comparison, posting a gain of just \$.18 year-over-year. As more retrofitting in North County occurs, rent growth there should accelerate. TAMI (technology, advertising, media and information) sector growth in North County has been on the rise and most of those companies prefer the creative space design that has been so popular in tech hubs around the country.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

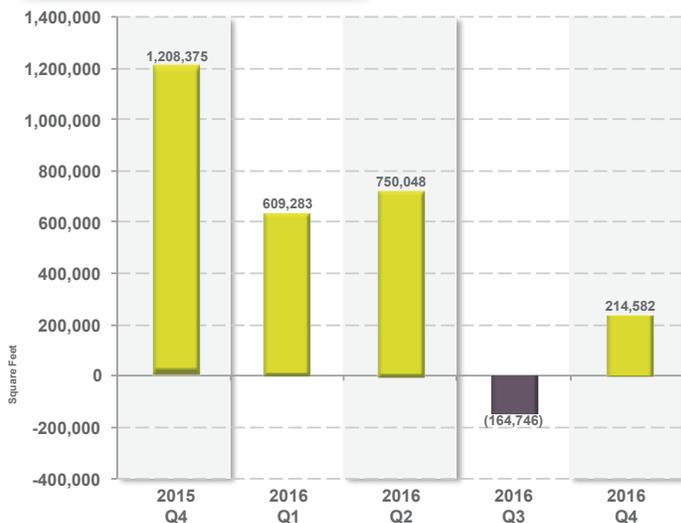


A LOOK AHEAD

- The vacancy rate decline should accelerate in 2017, before stabilizing in the 7% range
- Net absorption should remain moderate and steady throughout the year
- North County construction activity will increase by 17% in 2017 based on current project pipeline
- Average asking rental rates in North County should rise by another 3% this year
- Expect prices for owner/user buildings to move up another 2% in 2017
- More Class B and flex buildings will be redeveloped to meet ongoing demand for creative space

DENVER

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

The Denver office properties market is still suffering from the consequences of the energy sector slowdown. For more than a year, upstream oil sector businesses have been laying off workers, slashing capital budgets and until recently, shutting down drilling rigs to reign in over supply. Now rig count is on the rise again due to several factors, including OPEC's recent agreement to limit output and a slightly more optimistic view of global economic growth. While the price of oil stabilized above \$50-per-barrel in Q4, experts say that it will have to be consistently above \$60 per barrel to really revive the industry.

The fallout for Denver's office market is measurable. Net absorption levels have fallen, the vacancy rate has drifted higher and rent growth has flattened out. The amount of space offered for sublease is also on the upswing, rising in every quarter of 2016 to over 1.5 million square feet by the end of the year. Concessions are back on the table and landlords marketing direct space are adding amenities to compete with sublease opportunities. Growing businesses in other sectors continue to reap the benefit of the softening lease market, as they execute their own expansion plans. But, the damage done by the energy sector contraction is yet to be offset by growth in other sectors. Any improvement in the prospects for energy companies will be welcome news, especially owners of buildings currently in the construction pipeline.

Net absorption turned negative in Q3. The loss was slight, just 29,698 square feet, but it came on the heels of three straight quarters of strong positive gains. Class A posted a small gain in the period, but Class B and Class C were both in the red.

Net absorption returned to positive territory in Q4 after a loss of over 164,000 square feet in Q3. For the year, there was a gain in occupied space of 1.4 million square feet.

9.8%

VACANCY

\$25.26

AVG. SF RENTAL RATES

214,582

NET SF ABSORPTION

196,225,010

SF INVENTORY

6,049,049

SF UNDER CONSTRUCTION



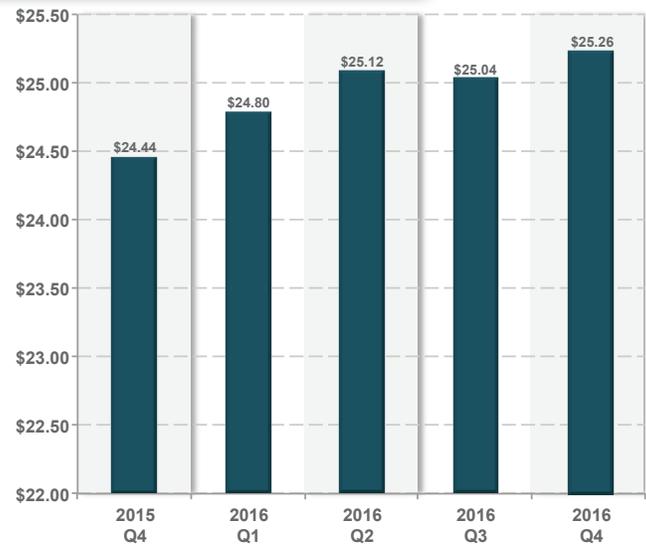
DENVER - TRENDING NOW (continued)

Class A posted a gain of just 23,512 square feet, while Class B added almost 190,000 square feet to the total of occupied space. Variations in absorption by location is perhaps more indicative of market conditions. The CBD generated its fourth consecutive quarter of negative absorption, posting a Q4 loss of 65,392 square feet. In all of 2016, the CBD generated a loss of over 401,000 square feet. By comparison, suburban submarkets posted a net gain of 1.9 million square feet for the year.

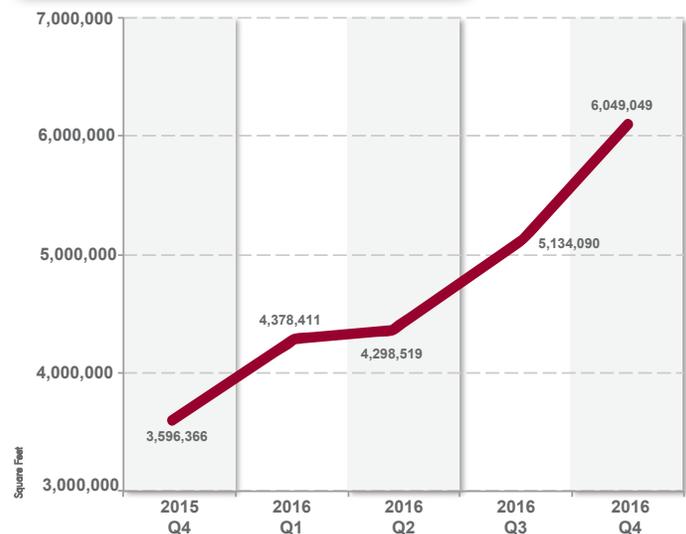
Average asking rental rate for all building classes was up by \$.22 in Q4, to end the year at \$25.26. On a year-over-year basis, rents grew by \$.82 per square foot. Class A rents also moved higher in Q4, gaining \$.20 to end the period at \$29.52. That wasn't enough to overcome a big third quarter decline in the Class A rate, which contributed to a year-over-year decline of \$.28. Class B rents have been steadily rising since 2012 and that trend continued in the final quarter, adding another \$.27 to end 2016 at \$22.50, up \$1.20 year-over-year.

Vacancy moved up by 10 basis points to 9.8% in Q4. Class A vacancy in the CBD was highest at 14.3%, while the combined Class C market posted the lowest vacancy rate of just 4.4%. The rise in sublease inventory remains a problem, and that is exacerbated by new construction activity. Nearly 1.6 million square feet of new office space was delivered in 2016, and just over 6 million square feet was still in the construction pipeline, raising concerns over a further rise in vacancy in 2017. The largest project under construction is the 670,000-square-foot building at 1144 15th St, and that building is only 5%.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

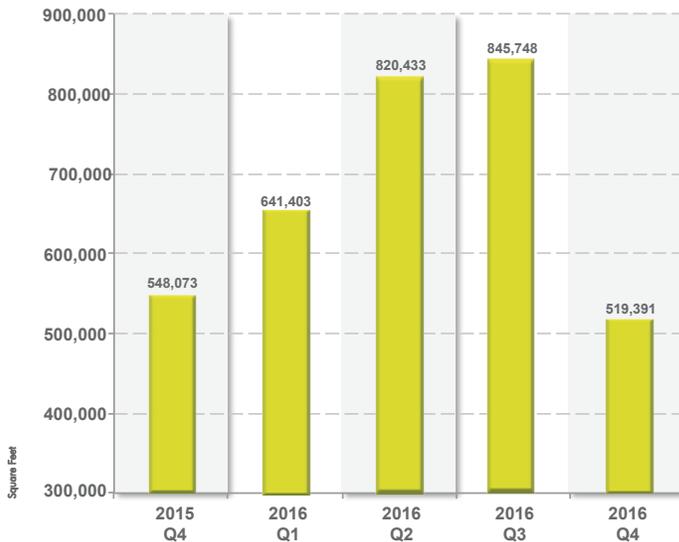


A LOOK AHEAD

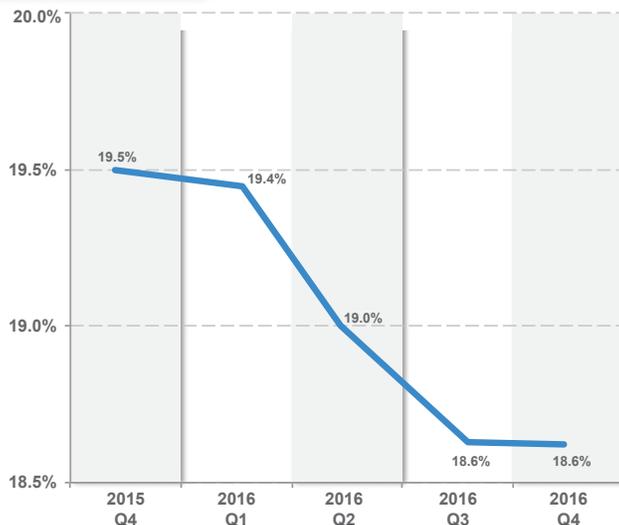
- Leasing activity will remain at current pace in 2017
- Rent growth will moderate until the energy sector rebounds
- Vacancy will drift higher with new deliveries
- Population growth and job creation in the tech and business services will continue
- Net absorption will remain on current pace throughout the year
- Construction starts will slow substantially in 2017

PHOENIX

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Phoenix office sector finished 2016 in solid form as the market appears to be finding its equilibrium. Though annual net absorption for the year was slightly off last year's pace, 2016 posted the third-largest increase in net absorption in a decade. The pace of new construction was strong, but not overheated, adding to the sense of market maturity after a long slog through the Great Recession. This speaks to the solid market fundamentals present in the Valley to begin with - a young, dynamic workforce, lower cost of doing business, motivated economic development groups and solid population increases. These factors have helped stabilize the office sector for sustainable growth as opposed to sending into another one of the 'boom and bust' gyrations Phoenix had come to be known for.

Perceptions and reality are both evolving about the Valley. New energy from out-of-state companies (many from Silicon Valley) have begun to transform the market according to Chris Camacho, CEO of Greater Phoenix Economic Council (GPEC). He sees the region's entrepreneurial ecosystem as thriving and these companies are also changing the Valley's physical infrastructure.

With this newer breed of office user entering the market, it poses challenges and creates opportunities for landlords and tenants to think about workspace designs that are more efficient and productive. Most office users are now planning less square footage per employee. Since 2012 the average amount of space allocated to each employee has fallen from 225 square feet to just 151 square feet, according to CoreNet Global. Many companies have downsized and that has put the pressure on landlords to make their projects more appealing to meet occupancy goals.

18.6%

VACANCY

\$24.34

AVG. SF RENTAL RATES

519,391

NET SF ABSORPTION

86,943,444

SF INVENTORY

2,683,027

SF UNDER CONSTRUCTION



PHOENIX - TRENDING NOW (continued)

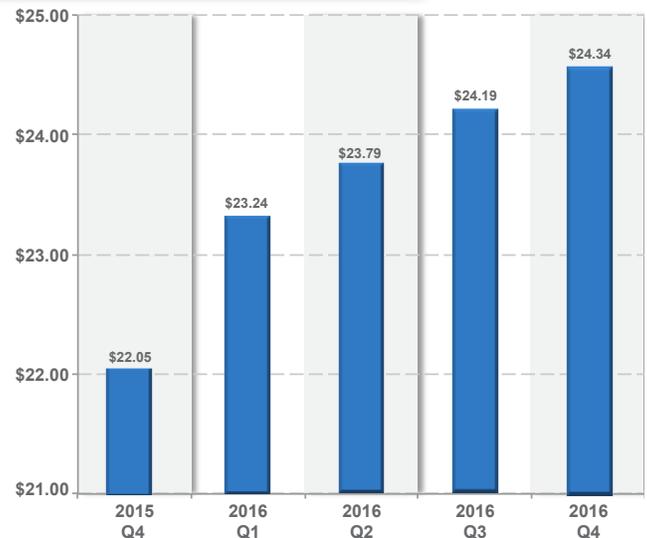
Overall vacancy remained steady at 18.6% from last quarter, but is down 90-basis points from the beginning of the year. Over 3.5 million square feet of new space was delivered in 2016, with nearly 853,000 square feet of that total completed in Q4. That lifted the inventory of office space in the Phoenix area to almost 87 million square feet. Construction remained strong, as nearly 2.7 million square feet was under construction as the year ended. Most of the building activity was centered in Tempe, Airport Area and Chandler.

Positive net absorption of 519,391 square feet was recorded in the final quarter, bringing annual net gain in occupied space up to 2.9 million square feet. Rents region-wide increased by 0.6% in Q4 to a new high of \$24.34. The Arrowhead and Paradise Valley submarkets posted the highest gains for the quarter at 5.9% and 4.1%, respectively. Landlord concessions persist and tenant improvement allowances remain generous in select submarkets. Leasing activity for the year moderated, down a third compared to 2015.

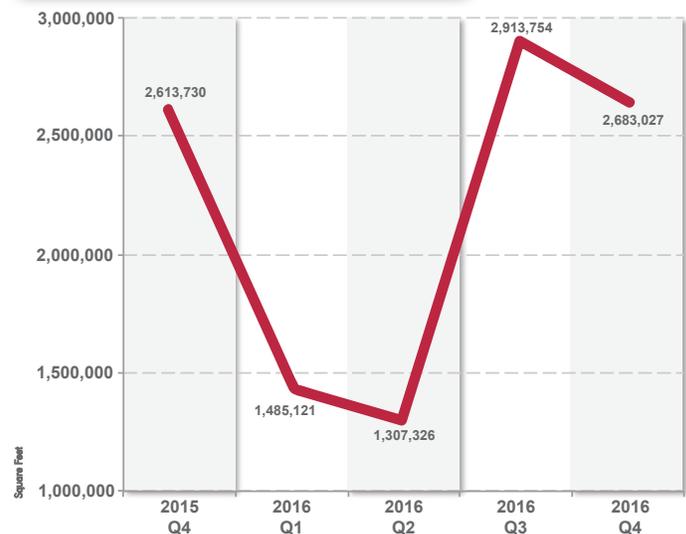
The largest lease transaction of the quarter was ADP's lease of 225,000 SF at the former US Airways Operations Center at 111 W. Rio Salado Pkwy in Tempe. The largest sales transaction in Q4 was the sale of Renaissance Square, 2 and 40 N. Central Ave. in Phoenix for \$151.3 million. Price per square foot was calculated at \$156.65 on a total of 965,508 square feet.

The future of the Valley's office sector appears to be on solid ground. There is stronger than expected population growth, a stable legislative agenda and a modest regulatory climate. These factors appeal to outside firms and locals who are seeking a new place to call home.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

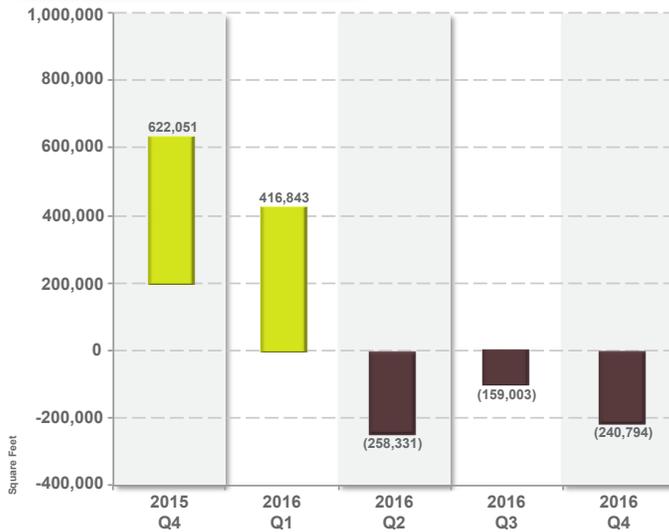


A LOOK AHEAD

- Pace of leasing activity should remain at modest pace in 2017
- Net absorption should stay on current track
- Average asking lease rates will keep moving up in 2017 and lease concessions will decline
- Spec construction will slow going forward, but build-to-suit activity will keep with 2016
- Vacancy should decline by 40 to 50-basis points per quarter in 2017
- Firms looking for creative space will continue to seek out historic retail and warehouse buildings

HOUSTON

NET SF ABSORPTION

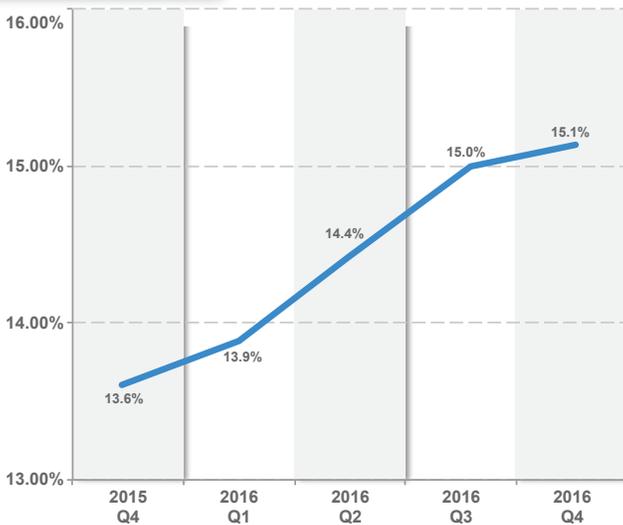


TRENDING NOW

Though the price of oil did make modest gains in the final quarter to stabilize above \$50 per barrel, the “upstream” energy business is still struggling to recover. Drillers did increase active rig counts in the final quarter to take advantage of recent price gains and possible supply constraints that result from OPEC’s new agreement to cap production.

However, Houston is not all about exploration and extraction, as pipelines (midstream) and refineries (downstream) can thrive when prices are lower. Billions of dollars are being invested on the “downstream” side in the Houston area and that is creating new jobs and changing the way business is done. Companies that depend on high oil prices are gone and those that were diversified are still in business, poised to grow in a way that reflects the new realities of the industry.

VACANCY RATE



Healthcare is also a large component of the Houston economy. The region has one of the largest hospital systems in the world, especially those facilities that are focused on cancer research and treatment. Despite that fact, few pharmaceutical companies currently call Houston home. So, the hospitals are busy investing in infrastructure and development to attract big pharma to the region. Universities, medical schools and other laboratories are also in growth mode, especially in the area surrounding the Texas Medical Center.

The legal services is another sector that contributes significantly to Houston, and in particular, its office sector. The region is home to some of the largest national and international law firms that have been actively absorbing space in the CBD and near-in suburbs.

15.1%

VACANCY

\$27.52

AVG. SF RENTAL RATES

(240,794)

NET SF ABSORPTION

304,100,825

SF INVENTORY

3,976,899

SF UNDER CONSTRUCTION



Key Market Snapshots

HOUSTON - TRENDING NOW

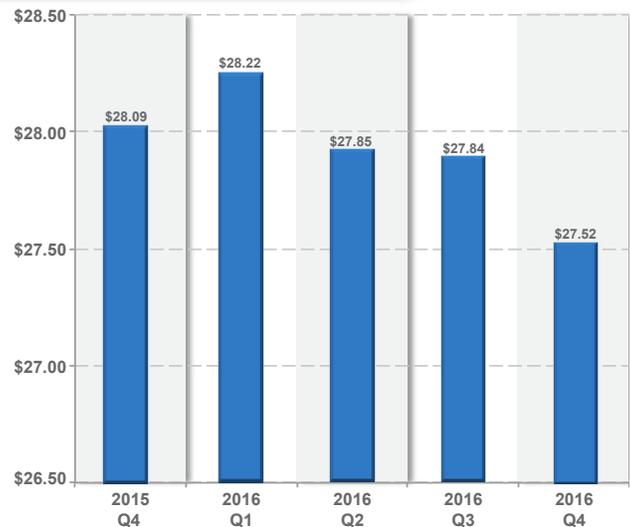
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The Houston CBD has been driven mainly by big deals by oil and gas mergers, legal services and accounting firms, along with healthcare users. Big departures downtown have created new opportunities for users who can backfill that quality space. The centralized tunnel system and proximity to the courthouses will always garner interest in the CBD from legal services and energy companies. The CBD also boasts a strong public transportation system and dense concentration of amenities that is attractive to a workforce that is getting younger every day. Despite challenges posed by the energy sector, CBD vacancy declined and absorption turned slightly positive in the final quarter of the year.

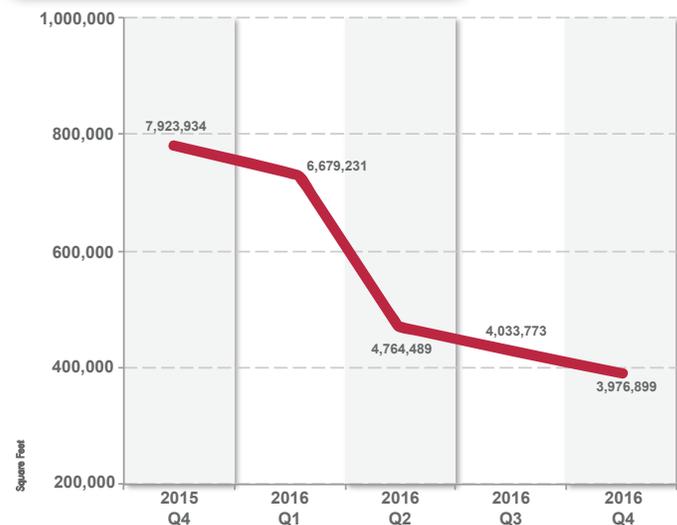
Despite energy woes, the overall average asking rental rate managed to fall by just 2% year-over-year, and finished the year nearly \$5 per square foot higher than the post-recession of 2010. In Q4, the overall rate across all building classes only slid \$.32 to \$27.52. However, the Class A rate fell by \$.78 to \$33.26, while the Class B asking rate managed a \$.23 gain to end the year at \$21.63.

Net absorption was in negative territory again in Q4, declining by 240,794 square feet following an occupancy loss of 159,003 square feet in Q3. For the year, Houston managed to limit negative absorption to just 241,286 square feet despite massive amounts of sublease space flooding the market all year. Another 4 million square feet of office space is still under construction.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

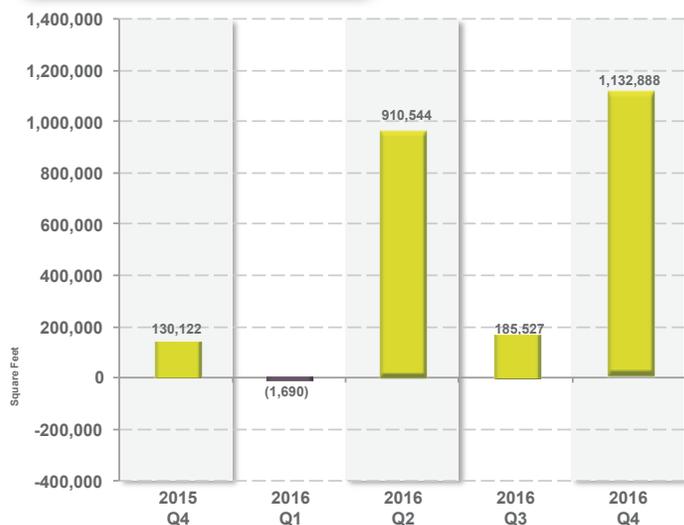


A LOOK AHEAD

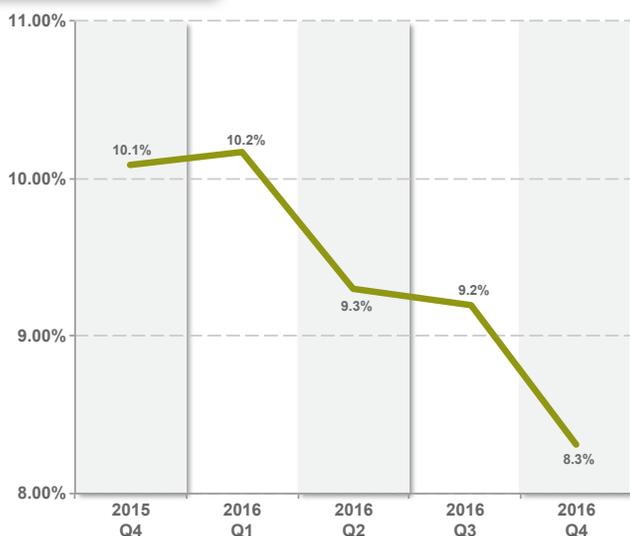
- Cap rates will remain higher than in other major metro areas
- Office construction will be minimal for the next two years
- Overall activity may see an uptick in 2017 if energy prices continue to recover
- Asking rental rates will flatten out or see a slight decline for 2017
- Vacancy will slowly decline over the next 24 months as tenants re-enter the market and sublease space is absorbed
- Net absorption will be moderate and steady

ST. LOUIS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The St. Louis office market ended 2016 on a high note by posting a steep decline in vacancy and strong net absorption. The local economy has benefited from the healthy expansion of Boeing and General Motors. Boeing, in particular, has made significant moves that benefited the office market. Additionally, the professional business services sector in the St. Louis area, which locates primarily in office properties, now employs over 500,000 workers. That represents an increase of over 23% since 2010 and is double the growth rate for total non-farm employment.

Not all the news is good, though. Several key acquisitions of St. Louis based companies are causing concern amongst landlords that several large blocks of space could soon hit the market, upsetting the current balance of supply and demand. Scottrade, a company that owns and occupies over 700,000 square feet in the West County submarket, was purchased by TD Ameritrade. However, it's the pending purchase of Monsanto by Bayer AG that is even a bigger unknown. Monsanto currently employs more than 4,000 workers and has a significant real estate footprint in the region.

Net absorption performance for the final quarter of 2016 was the best it has been in years, adding 1,132,888 square feet to the total of occupied space, following a gain of just 185,227 square feet in Q3. After four new lease expansions in West County and Clayton, Centene continues to be a main driver of occupancy growth, accounting for almost 10% of leasing activity there in 2016. Talk of short supply in suburban Class B office space is on the rise as a result. Occupancy growth in suburban markets accounted for over 86% of the net absorption in 2016, making clear tenant preference for suburban locales. By building class, it's Class B that led the way in 2016 with a gain of over 1,173,456 square feet, more than double the net absorption recorded in Class A buildings. Though net absorption has been strongest in the Clayton

8.3%

VACANCY

\$18.37

AVG. SF RENTAL RATES

1,132,888

NET SF ABSORPTION

130,919,236

SF INVENTORY

1,425,138

SF UNDER CONSTRUCTION



Key Market Snapshots

ST. LOUIS - TRENDING NOW
(continued)

and North County submarkets, the entire region was in positive territory. In all, the St Louis region increased occupied space by over 2.2 million square feet in 2016.

Construction activity remains light. In all of 2016, just 153,600 square feet of new space was delivered. In Q4, a single 7,000 square foot building was added to a base inventory of almost 131 million square feet. Another 1.4 million square feet is under construction including a 210,000-square-foot office headquarters building for World Wide Technologies, due for delivery in late 2017, and the BJC and Washington University Office Tower, a 510,000-square-foot building set for completion in the first quarter. Both projects are 100% committed. The 125,000-square-foot Delmar Gardens III Building, due for completion in Q4, is just 63% pre-leased, giving tenants in West St. Louis County an opportunity to secure first generation, Class A space. Fully-speculative development throughout the region remains limited to a few smaller projects.

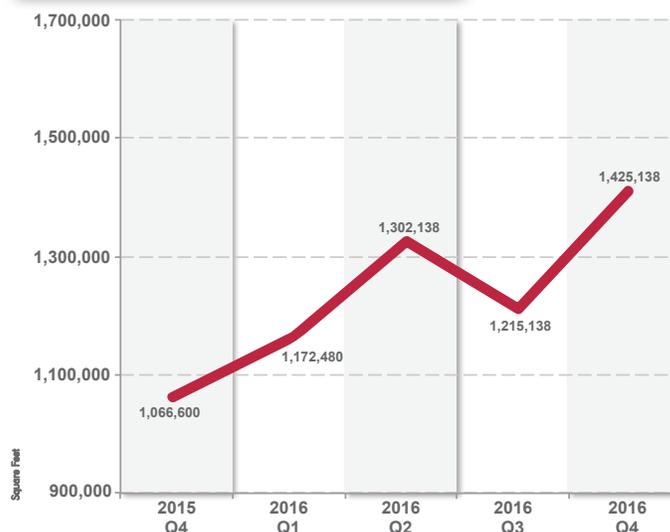
Without significant new construction, vacancy declined sharply in 2016. In the final quarter the overall vacancy rate fell by 90 basis points to end the year at 8.3%. Suburban vacancy finished 2016 at just 7.3%, compared to 14.2% in the CBD. Both product types managed significant declines in Q4 after flattening out in the middle quarters.

Steady declines in overall vacancy usually result in rent growth, but St Louis continues to buck that trend. Year-over-year, the overall average asking rental rate rose by just \$.05 to end the year at \$18.37. The Class A asking rate fell \$.57 in the past four quarters to \$21.69, while Class B managed a \$.09 rise in the same period to end the year at \$17.15.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



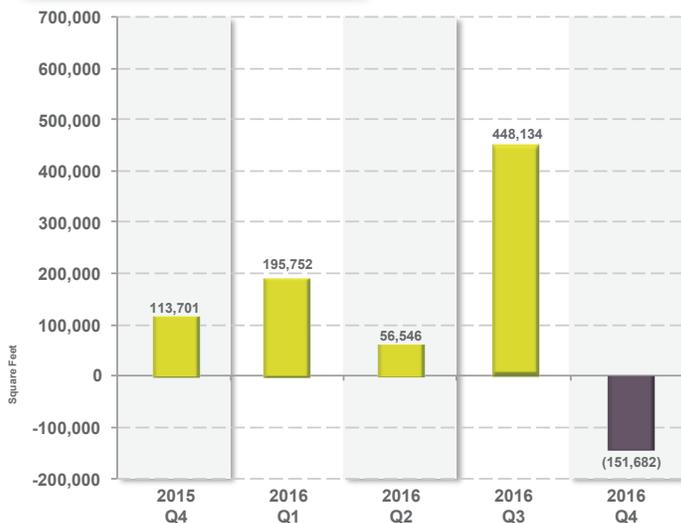
A LOOK AHEAD

- Leasing activity should remain steady in 2017, as over 1.3 million square feet of active requirements are in the current activity pipeline
- Vacancy will keep moving lower throughout the year
- Absorption will be positive, but most of the gains will be in suburban submarkets
- Investment activity should keep current pace, as supply of good office product continues to run well short of demand
- Speculative development of major projects will not begin until rent growth accelerates
- The professional business services sector will continue to be the main job generator going forward

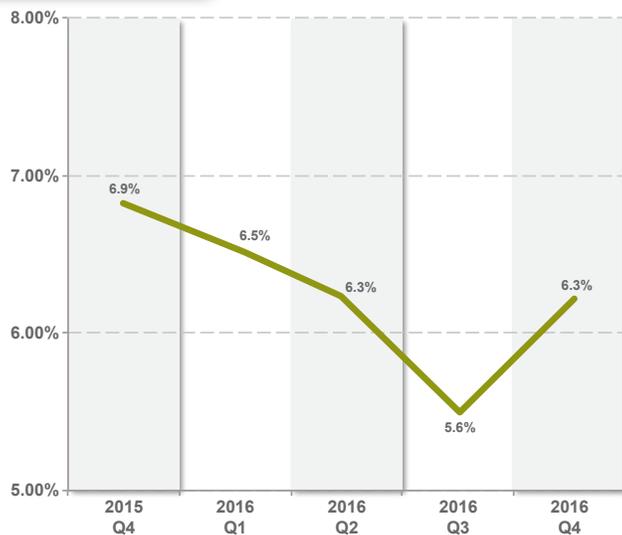


MADISON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Madison office market remained stable and steady throughout the year. The region is known as a haven for tech startups, which attracts younger workers looking to enjoy a live/work/play lifestyle that excludes cars and long commutes from traditional suburban areas. That has, in part, ignited a multi-family housing construction boom that is ongoing. Numerous projects downtown have been built and more are in the works, fueled by cheap capital, low vacancy and consistent strong demand for amenity-rich locations. Empty nesters looking to downsize, streamline and simplify their lives are also a significant source of the demand for multi-family development. The office market is benefitting directly, as area businesses see the benefit of locating in more densely populated areas.

The Madison office market ended 2016 with a total base inventory of 33.2 million square, after 370,000 square feet of new space. Most of the new deliveries were build-to-suit transactions, including Fiskars new 108,000-square-foot headquarters, Epic System's 100,000-square-foot expansion and UW's 60,000-square-foot medical office building. Another 1,475,000 square feet of space was still under construction at the end of Q4, including the 600,000-square-foot Hill Farms redevelopment and four buildings for Author's campus totaling 400,000 square feet that will be delivered throughout 2017 and the first quarter of 2018. All three of these major developments are 100% preleased.

Significant speculative development is limited and will remain so until rents begin to move up in earnest. On a year-over-year basis, the average asking rental rate actually slipped by \$.30 to end 2016 at \$14.78, despite low vacancy compared to most major and secondary markets around the country.

6.3%

VACANCY

\$14.78

AVG. SF RENTAL RATES

(151,682)

NET SF ABSORPTION

33,236,416

SF INVENTORY

1,474,940

SF UNDER CONSTRUCTION



MADISON - TRENDING NOW (continued)

The overall vacancy rate declined by 60 basis points compared to Q4 of 2015, finishing the year at just 6.3%. However, vacancy reached a post-recession low of 5.6% in Q3 of 2016. In a market of Madison's size, significant fluctuations in vacancy can be expected, as just a single large relocation can have a measurable effect. In terms of vacancy by building class, it's Class A that fared best in 2016, with a yearend rate of 5.1%, down 90 basis points in four quarters. Class B vacancy rose 70 basis points in Q4 to 6.5%, but was down from 7.2% a year ago.

While net absorption declined by 152,000 square feet in the final quarter, the absorption trend has been generally positive since 2014. Class B accounted for all of the negative absorption in Q4, while Class A managed a net gain of over 61,000 square feet. For the year, overall positive net absorption topped 548,000 square feet, with Class B accounting for over 238,000 square feet of net gain despite the disappointing fourth quarter.

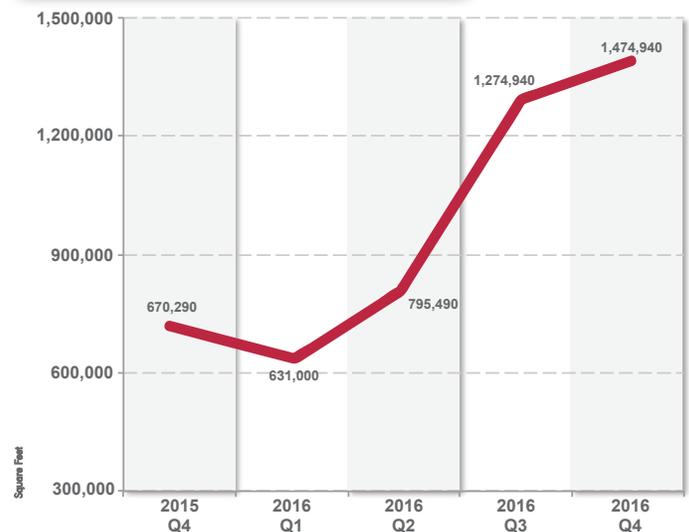
Downtown office properties in both building classes are seeing lower vacancy, solid leasing activity and thinner concession packages. There is also some migration from Class A to Class B as tenants have become focused on functional designs to maximize efficiency and lower occupancy cost.

Sale activity is also on the rise, but a shortage of owner/user opportunities is limiting the number of sales transactions. Those looking to acquire their own facilities are starting to settle for properties that may not fit all their needs if they allow for future expansion. Interest rates have drifted higher, but have not increased enough to discourage owner/user activity.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



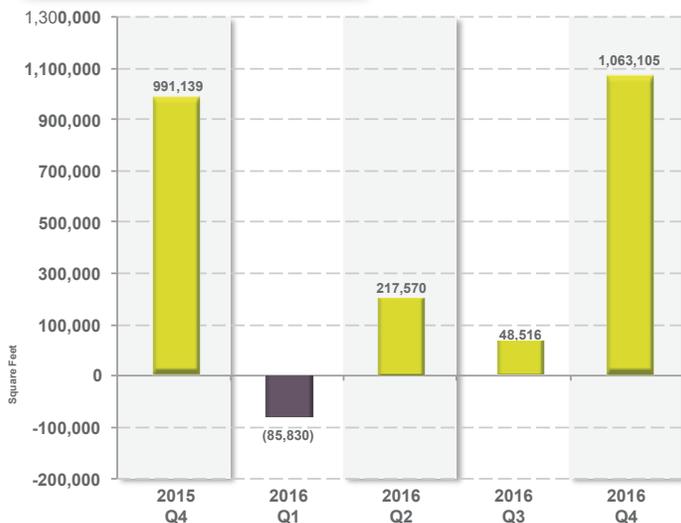
A LOOK AHEAD

- Gross lease and sale activity will remain strong throughout the year
- Net absorption may moderate in 2017 due to supply constraints
- Lease rates will stabilize near current levels
- Vacancy rates will head lower throughout the year, as little speculative product is scheduled for delivery
- New deliveries downtown may create landlord competition and boost lease concessions to secure strong tenants
- Construction activity should increase by 10% to 20%

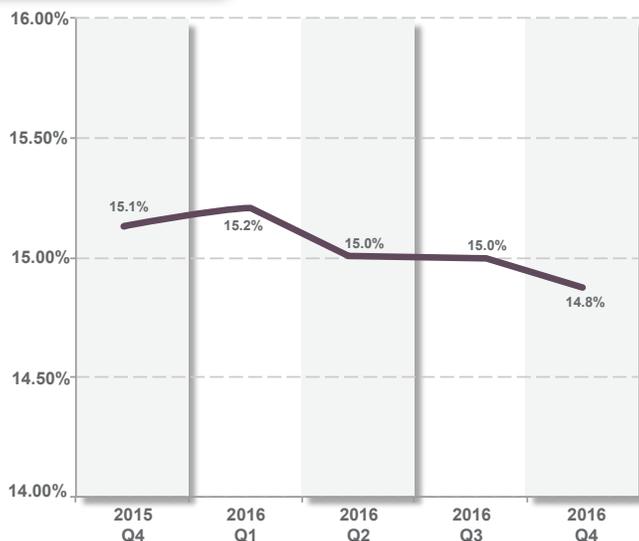


ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Atlanta region continues to attract young talent through its proximity to some of the country's finest universities. Georgia is a "right to work" state and Atlanta is a business friendly city. Gains in population and employment continue to improve the local economy and multi-family residential development in urbanized areas is attracting TAMI and professional services companies that need to recruit and retain Millennials who prefer an urban lifestyle. In doing so, companies are looking to leverage new technologies, workspace designs, and wellness programs to increase efficiency for each square foot of space leased, thereby mitigating rapidly rising rents. Corporations are also looking to reduce their space footprints to lessen the impact of new lease accounting rules on their balance sheets.

New lease structures are being created to alleviate the financial impact of capitalizing what was once off balance sheet (operating leases). Owner/occupier acquisitions may also get a fresh look due to the rule changes, as the impact of ownership on corporate balance sheets will compare favorably to the capitalization of operating leases.

In Q4, Atlanta's office market posted 1,063,000 square feet of net absorption, bringing the year-to-date total gain in occupied space to just 1,243,000 square feet after poor results in Q1 and Q3. Class A absorption led the way in Q4, adding 679,000 square feet to the occupied space total, while Class B added just 52,000 square feet. Class A buildings in urban cores like Buckhead and Midtown are seeing the best net absorption, as the flight from the suburbs continues. It is important to note that lease expirations during 2016 were low at just

14.8%

VACANCY

\$23.35

AVG. SF RENTAL RATES

1,063,105

NET SF ABSORPTION

210,282,817

SF INVENTORY

4,617,738

SF UNDER CONSTRUCTION



Key Market Snapshots

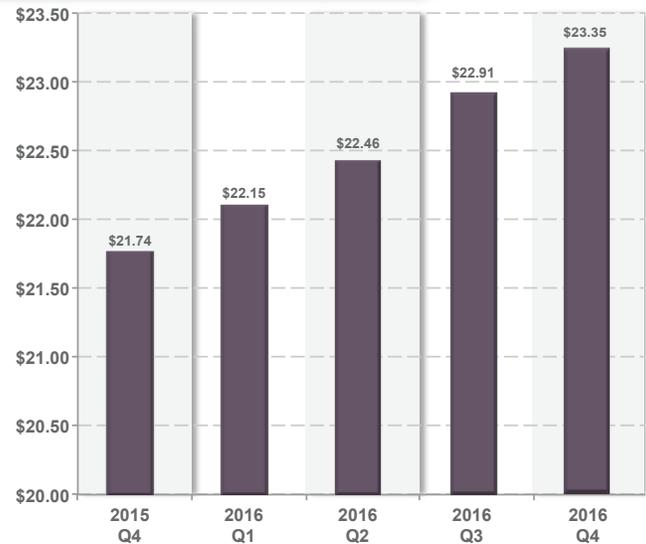
ATLANTA - TRENDING NOW
(continued)

square feet, and that may have had a significant impact on poor net absorption performance. Lease expirations are more than six times higher in 2017, which should have significant impact on net absorption for the year.

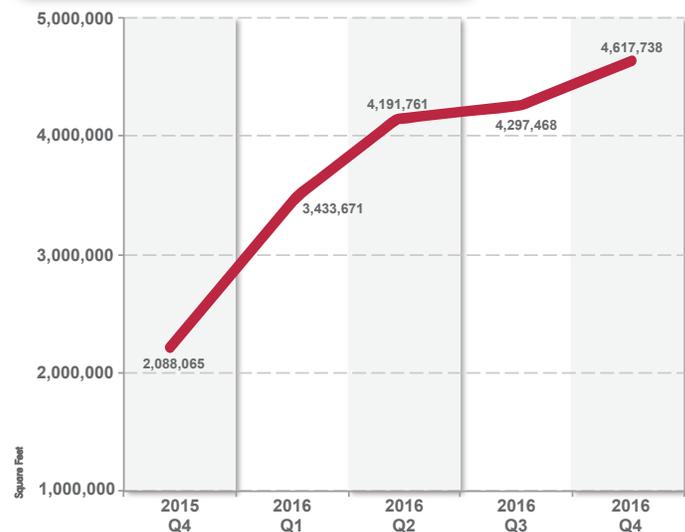
The vacancy rate moved lower as a result of a strong final quarter, falling 20 basis points to 14.8% overall. Class A vacancy stood at 14.2% as the year ended, down a tenth compared to Q3. Class B's vacancy rate also declined, ending the year at 16.6%. While some landlords are emboldened to offer less free rent and lower tenant improvement allowances, others who may be selling their properties soon, are more concerned about cap rate decompression that could result from higher borrowing costs. They are choosing to prioritize high rental rates and annual escalations while offering higher tenant improvement allowances with liberal application to FF&E, relocation costs and rent credits.

Leasing activity exceeded 3 million square feet in Q4, up substantially over Q3's total of 2.3 million square feet. However, higher rates throughout the region are forcing tenants to look for greater efficiency. Quoted lease rates for all building classes combined moved sharply higher in Q4, rising another \$.43 to \$23.35 per-square-foot. Class A rose by \$.44 PSF for the period and \$1.81 year-over-year (7.2%), ending Q4 at \$26.99. Tenants continue to pay a premium for Class A properties in Buckhead, Central Perimeter and Midtown submarkets, but it's getting tougher to find quality space in those areas at any price. The Class B asking rental rate rose another \$.27 in Q4 to \$19.00. Suburban Class B absorption is on the rise, as it offers a cost-effective alternative to small businesses that are being priced out of

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

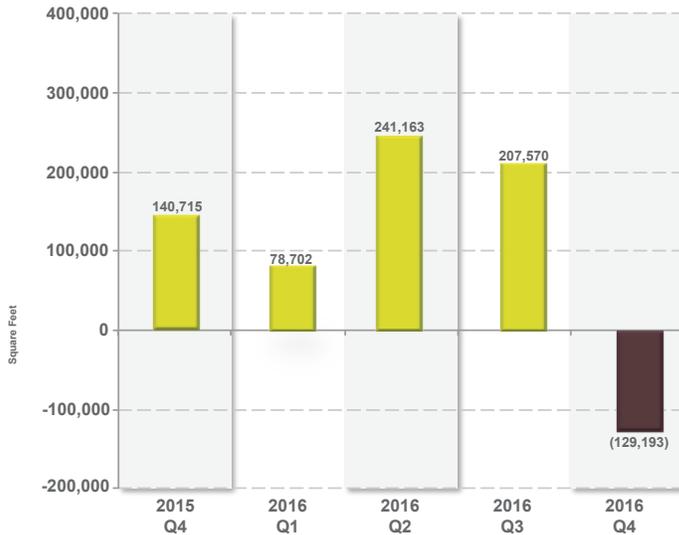


A LOOK AHEAD

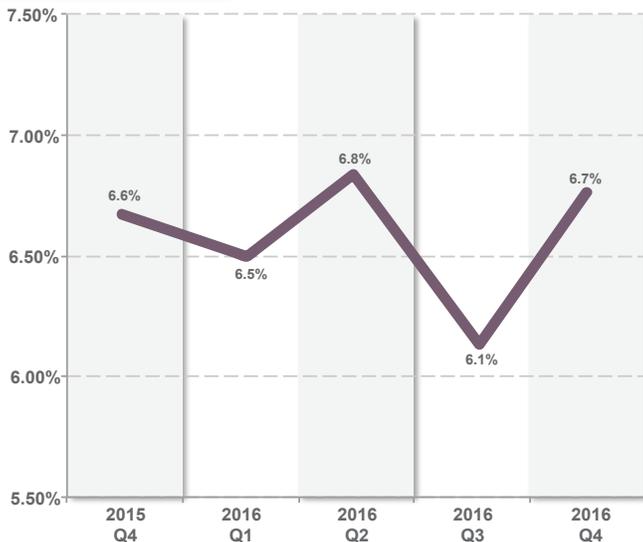
- Rents should increase by 2% to 3% in 2017
- Net absorption should spike in 2017 due to high level of lease expirations
- Vacancy will decline throughout the year due to a growing supply/demand imbalance
- Leasing activity could double over 2016 levels
- Improving operating efficiency to mitigate higher lease costs will be a priority for tenants
- Construction will remain at current levels throughout the year

CHARLESTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

2016 has already been quite a year to remember for Charleston, South Carolina. Site Selection Magazine named South Carolina the "Second Best Business Climate;" U.S. News and World Report ranked Charleston the 19th best place to live based on quality of life and job opportunity; and just recently, Travel and Leisure Magazine readers voted Charleston No. 1 in its "Best City in the World" survey.

Charleston's economy is seeing record growth in virtually every measurable area, leading the Southeast in job creation. In addition, the tri-county region is gaining population at a rate of 48 people per day. All commercial sectors remain strong and show little signs of slowing down. The region's growing professional, technical and life sciences sectors are the focus of city's economic development efforts due to the potential for high-wage job growth.

As we reported last quarter, the available supply of quality office space market remains exceptionally tight. Businesses are still in growth mode and many are forced to increase employee density in existing spaces. Rents are heading higher, but there is a big gap between rates in second generation space versus new construction. More new inventory is needed, but higher construction costs make it difficult to build speculative projects at current rental rates.

The inventory of office space in Charleston ended the year at 27,867,665 square feet, after adding just 26,307 square of new space in Q4. Year-to-date new deliveries are 440,000 square feet, but the bulk of that space was 100% pre-committed. So, expanding tenants are forced to choose from existing inventory that is running thin.

6.7%

VACANCY

\$20.12

AVG. SF RENTAL RATES

(129,193)

NET SF ABSORPTION

27,867,665

SF INVENTORY

511,413

SF UNDER CONSTRUCTION



Key Market Snapshots

CHARLESTON - TRENDING NOW
(continued)

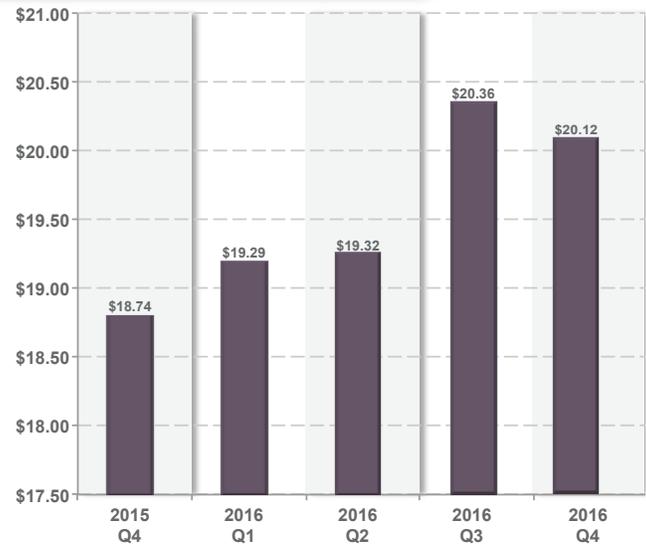
Another 511,413 square feet is under construction, but the two largest projects in the queue, the 172,000-square foot Blackbaud campus and the 90,270-square-foot building Town Hall project, are also 100% preleased.

As a result of these tight conditions, vacancy remained low throughout 2016. In Q4, the overall vacancy rate actually moved up, but still ended the year at just 6.7%, lower than the majority of primary and secondary markets around the country. Neighboring Atlanta, one of the nation's hottest markets, has a vacancy rate of 14.8% on a base five times larger than that of Charleston.

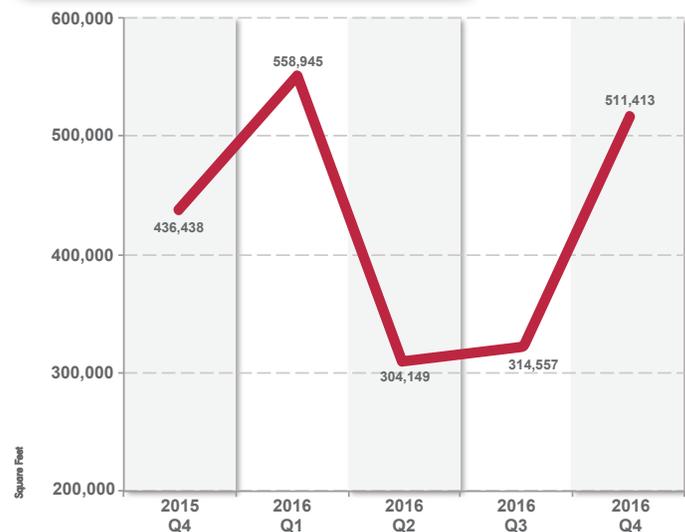
After reaching a record high in Q3, the average asking rental rate slipped \$.24 to finish the year at \$20.12. Year-over-year, the average rate rose by \$1.38 or 7.3%. There were some rather wild swings in asking rate in the final quarter as it relates to building class. The Class B average rate fell by \$.61 to end the year at \$17.85. Class A rents fared moved in the other direction, ending Q4 up \$2.41 to \$29.78.

Net absorption for the quarter was negative, a rare occurrence in a generally healthy office market. In Q4, net occupancy declined by 129,193 square feet, but the last four periods combined to increase occupancy up by over 398,000 square feet. Class A buildings added 251,547 square feet of new occupancy in 2016, even though Class B makes up roughly two-thirds of the inventory. Big moves contributing to net absorption this year include Roper St. Francis Healthcare's move into 130,000 square feet at 8536 Palmetto Commerce Parkway and the Comcast's 80,000-square-foot lease at 3450 Ingleside Blvd.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



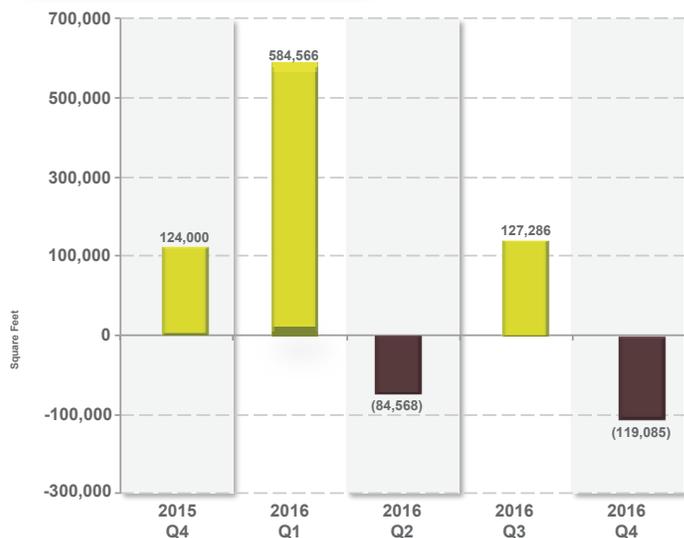
A LOOK AHEAD

- Leasing activity and net absorption will be restricted by supply constraints
- Vacancy will remain near current level for the year
- Construction activity will rise in 2017
- The impact of the new Volvo plant will be felt region-wide
- Rent growth will accelerate as new deliveries increase

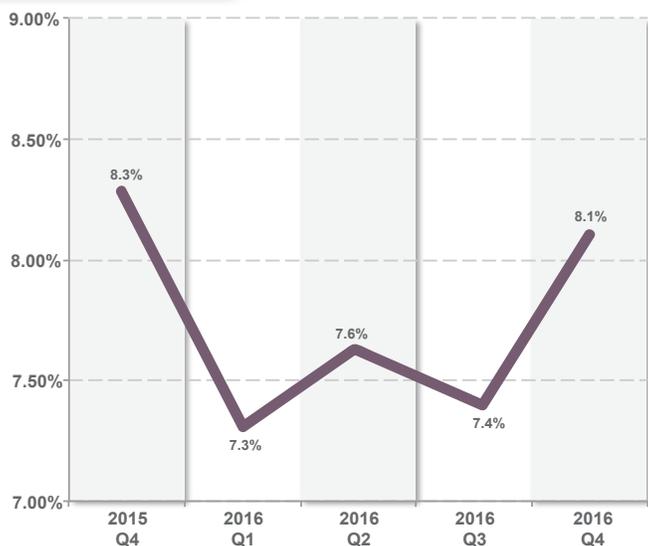
GREENVILLE/SPARTANBURG

TRENDING NOW

NET SF ABSORPTION



VACANCY RATE



Investors and occupiers in a variety of business sectors remain attracted to Greenville/Spartanburg's well-educated workforce and growing population. Proximity to a convenient airport and interstate transportation corridors has also increased interest from employers to call the region home. Quality of life benefits continue to contribute to the area's growing popularity, especially when it comes to affordable housing and access to top quality healthcare services. This keeps institutional and regional sources motivated to provide ample capital for development and revitalization. However, all the attention the area is getting is making quality space more difficult to secure for growing local companies.

Downtown Greenville continues its transformation into one of the nation's true urban gems. It boasts an interesting and eclectic blend of residential, office and retail space, which plays right into the live-work-play lifestyle that has become so popular. The recent sale of the Wells Fargo Center downtown is a great example. CapRocq, an Arkansas-based investor recently acquired the mixed-use development downtown for over \$33 million. The 200,000-square-foot project includes an office, retail and multi-family component, which the new owners plan to further improve with new interior improvements, signage and lighting. The project was originally built in the 1970's and has already undergone several major renovations.

Another transaction that signals the ongoing renaissance of the downtown area is the acquisition of the Bank of America building. The ownership group includes local player, RealOp Investments. The 15-story building was acquired for \$22.5 million. Add the Greenville News site, a 4.3 acre parcel that will soon be developed into another mixed-use project, and it is easy to see that Greenville's

8.1%

VACANCY

\$16.59

AVG. SF RENTAL RATES

(119,085)

NET SF ABSORPTION

38,133,865

SF INVENTORY

202,986

SF UNDER CONSTRUCTION



Key Market Snapshots

GREENVILLE/SPARTANBURG - TRENDING NOW
(continued)

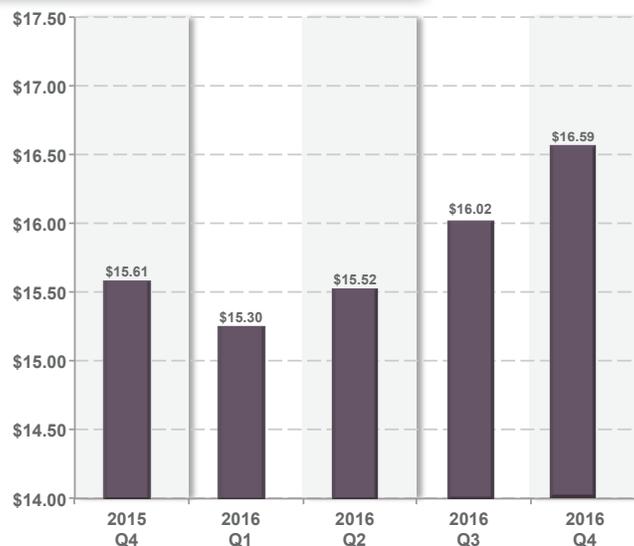
near term future remains bright. Several major moves to Downtown Greenville are also in the works, including 100,000 square feet for ChartSpan and a new headquarters of Duke Food Productions.

Overall, net absorption declined by 119,000 square feet in Q4 after posting a net gain of 127,000 in Q3. For all of 2016 a total net gain in occupied space of over 508,000 square feet was recorded. Uneven quarterly results can be expected given the size of the office base compared to major metro areas. Class A buildings managed a small gain of 27,983 square feet in Q3, but that was offset by a net loss of more than 137,000 square feet in Class B product, reversing the metrics of the previous quarter.

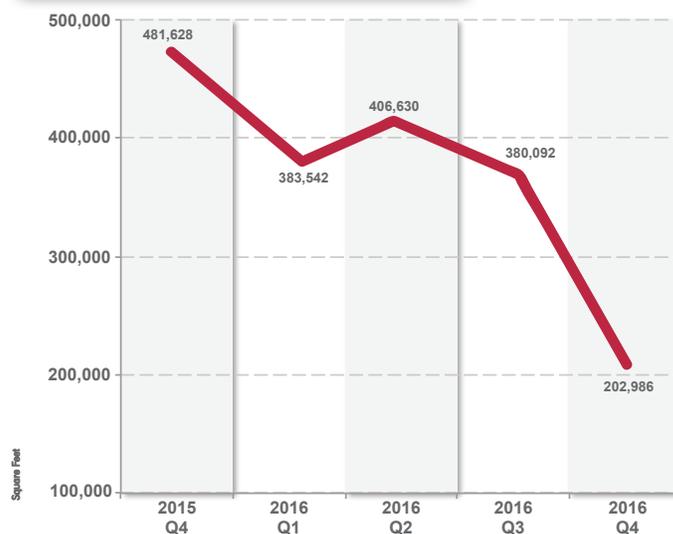
Market vacancy moved higher in Q4, ending the year at 8.1%, up 70 basis points for the period, but 20 basis points lower year-over-year. Class A vacancy in Q4 rose by 140 basis points, but is still 320 basis points lower than it was in Q4 of 2015. The average asking rental rate for Class A space during Q4 rose by two pennies to finish the year at \$22.52, while the Class B rate moved up by \$.50 to finish 2016 at \$15.08.

Development activity has been primarily in preleased projects, which has minimized the risk of overbuilding. However, the recent delivery of the New Erwin Penland Building, a 125,000-square-foot project came to the market with 54% of its space unleased, which impacted the vacancy rate in the final quarter of 2016. Total deliveries for the year came to just over 455,000 square feet, just under the annual net absorption total.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



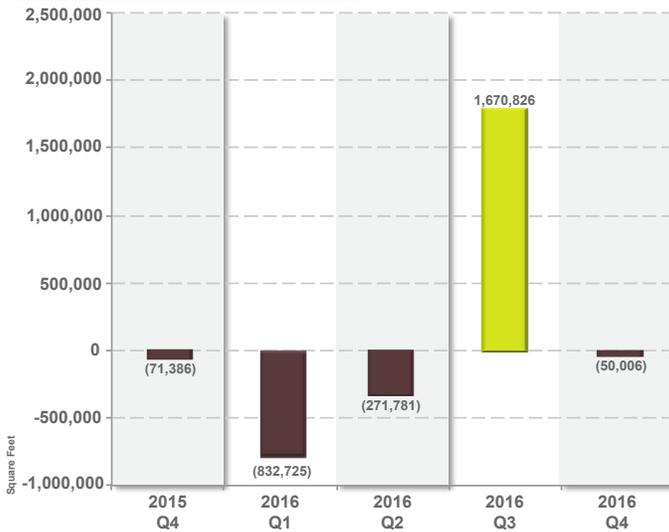
A LOOK AHEAD

- Leasing activity will remain strong in 2017
- Net absorption will remain positive overall, but expect significant quarterly swings
- Vacancy will head lower for the year, but will remain subject to quarterly spikes as new product is delivered
- Development activity will increase in areas surrounding the CBD
- Look for more project revitalization to meet the rising demand for quality space
- Average asking rental rates will move gradually higher throughout the year

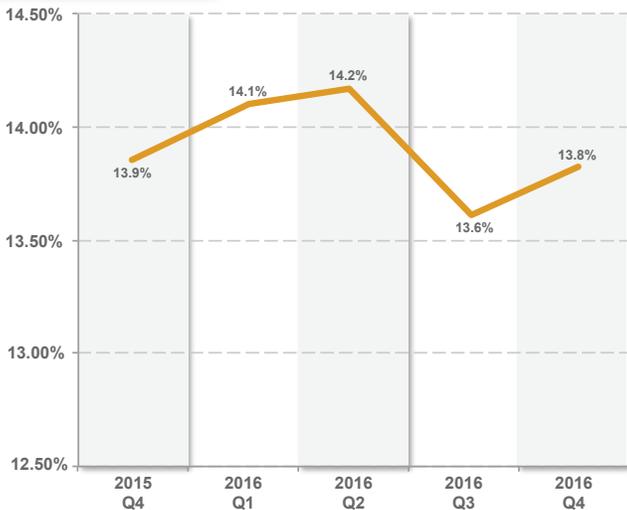


NORTHERN NEW JERSEY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Northern New Jersey's office market continues to fight its way back from the major hit it took in the last recession. Office-using businesses were hit hard and job losses were substantial. The resulting impact on the office market is still evident today, as it has recovered more slowly than its industrial counterpart. The region has traditionally been home to large corporations, but many have departed leaving behind large blocks of suburban Class B and C space that has become functionally obsolete. Vacancy in some submarkets is still running at 25% or more. To counter this trend, the State of New Jersey is actively engaged in providing economic incentives to retain existing companies and attract new businesses to the state. Recently, fashion retailer Tory Burch was offered an \$11 million tax credit from the New Jersey Economic Development Authority to move its corporate offices from Manhattan to Jersey City. Rents there are roughly half of those in Manhattan, but Tory Burch is also weighing an option to move to Brooklyn, where rents are similar to those of Jersey City.

By the end of Q4, the overall average asking rental rate managed a rise of \$.09 to finish the period at \$24.83. Class A rents, though, increased by \$.29 to \$28.58, while the rate for Class B decreased by \$.10 to \$21.88. Suburban markets are faring worse in all building classes, especially those with limited access to public transportation and amenities preferred by today's younger workers.

Tenants in Class A space are looking for favorable terms to renew in place, and landlords are battling for longer lease terms. To that end, landlords of Class A CBD properties are offering amenities like gyms, in-building kitchen services and public area dining/lounging areas to attract tenants looking to please the millennial component of their workforces.

13.8%

VACANCY

\$24.83

AVG. SF RENTAL RATES

(50,006)

NET SF ABSORPTION

363,737,578

SF INVENTORY

1,577,485

SF UNDER CONSTRUCTION

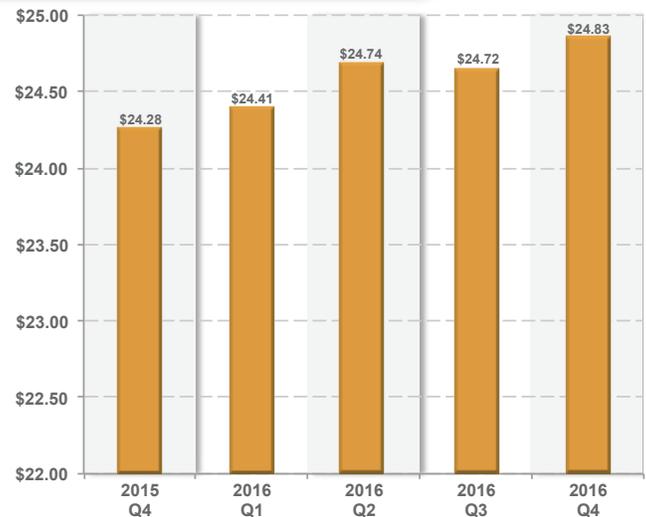
NORTHERN NEW JERSEY - TRENDING NOW (continued)

Unfortunately, some owners of Class B properties, especially in suburban areas, lack the working capital to respond in kind. As a result, suburban office rents are falling further behind their CBD counterparts, and the gap in rental rates continues to widen. Rents for Class A properties in CBD submarkets are approaching pre-recession levels, especially in recently upgraded buildings.

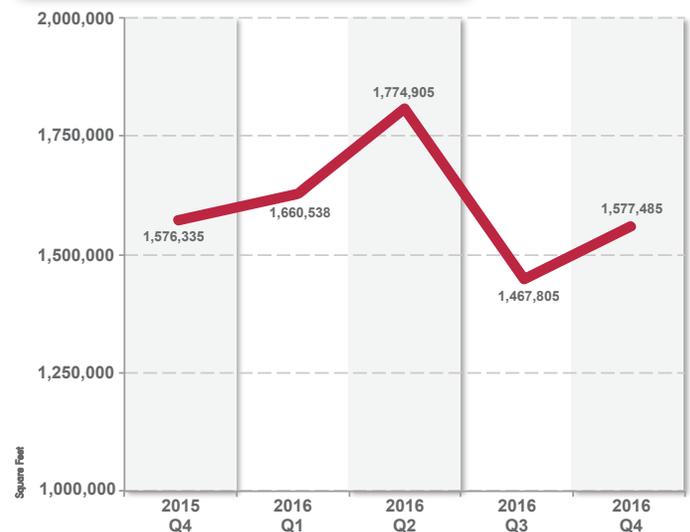
Net absorption slipped into negative territory again in Q4 after a posting positive absorption of over 1.6 million square feet in Q3. Net growth in occupied space declined by just over 50,000 square feet in the current period, but it was the third decline in the past four quarters. Renewals in place are still common and landlords of suburban Class B buildings are offering lower rents to maintain long term occupancy. Overall vacancy declined by 30 basis points since the first quarter of 2016, finishing the year at 13.8%. However, the disparity in vacancy by submarket is substantial and there a significant number of large space vacancies in corporate headquarters-type facilities.

Construction is mainly limited to build-to-suit transactions, as the metrics of the market do not currently support large scale speculative development. Just one building of 43,000 square feet was delivered in the final quarter of 2016. In all less than 700,000 square feet of new inventory was added to a base that now stands at 363.7 million square feet. Another 1,577,485 square feet is under construction, including a 555,000-square-foot facility for Bristol-Myers Squibb at 3401 Princeton Pike, and another 200,000-square foot building on Upper Pond Road soon to be occupied by UPS.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

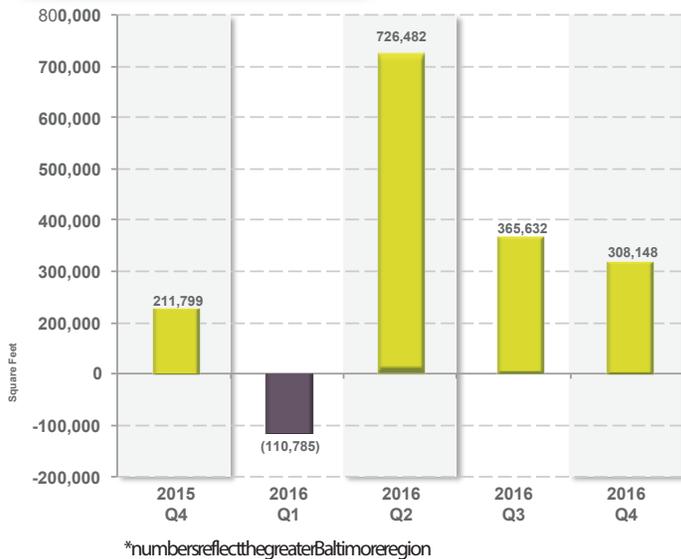


A LOOK AHEAD

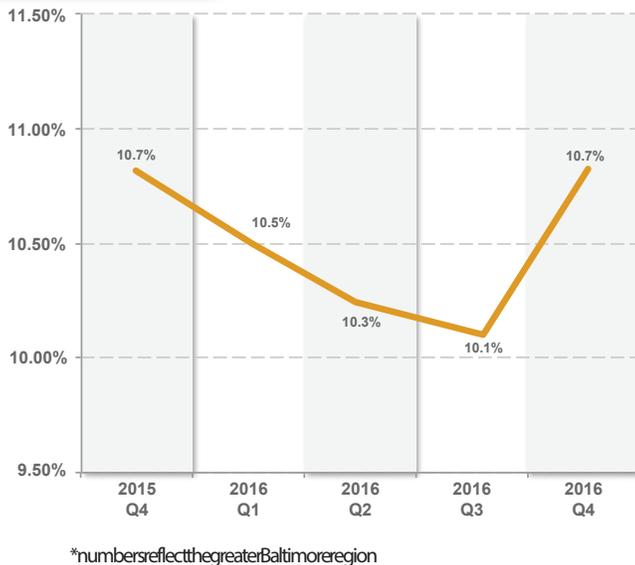
- Lease activity will be strongest in Class A product in Hudson Waterfront, Princeton and parts of Bergen County
- Asking rents will rise for Class A buildings offering full amenities, but will decrease for Class B legacy properties
- Net absorption should keep moving up slowly with Class A seeing the greatest gains
- Vacancy will move down to the 12.5% range over the next two years as small and mid-size tenants contribute more to market growth
- Average asking sales prices could decline slightly over the next 2 years, as many of the properties traded will be older and in need of renovation

COLUMBIA, MARYLAND

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Columbia office market is strategically located between the cities of Baltimore and Washington DC, and has long been home to several government security agencies that provide thousands of jobs and the opportunity for subcontractors to locate nearby. In fact, Columbia, Maryland was recently named the No. 1 place to live in America by Money Magazine. It ranks in the top 5% for economic opportunity out of more than 800 places on Money's list. The unemployment rate in Howard County continues to run well below the current national rate of 4.7%.

The Columbia Downtown is the primary CBD. It contains several existing Class A office properties and will soon be home to three new buildings being developed by the Howard Hughes Corporation as part of its Merriweather District project. MedStar and Pearson PLC have both preleased large blocks of space in that project, which is helping to attract tenants looking for a modern central business district with a high concentration of walkable amenities.

Columbia South finished the year with just 6.4% of its nearly 10 million square foot base standing vacant. The neighboring Columbia Town Center and Columbia North submarkets posted vacancy rates of 12.6% and 10.7%, respectively. The Baltimore CBD vacancy rate stood at 14.9% as the year ended. Class A space is getting most of the attention from larger tenants, but Class B is becoming more popular with smaller tenants who are more concerned about price than specific location.

Average asking rental rates continue to move up. Year-over-year, the Greater Baltimore region has seen a rental rate increase of 3% or \$.64 finishing Q4 at \$22.54, but the local market saw rent growth of approximately 4.9%. The asking rate in the Columbia Town Center is \$26.40, in part

10.7%

VACANCY

\$22.54

AVG. SF RENTAL RATES

308,148

NET SF ABSORPTION

139,901,722

INVENTORY (MSF)

1,429,749

SF UNDER CONSTRUCTION



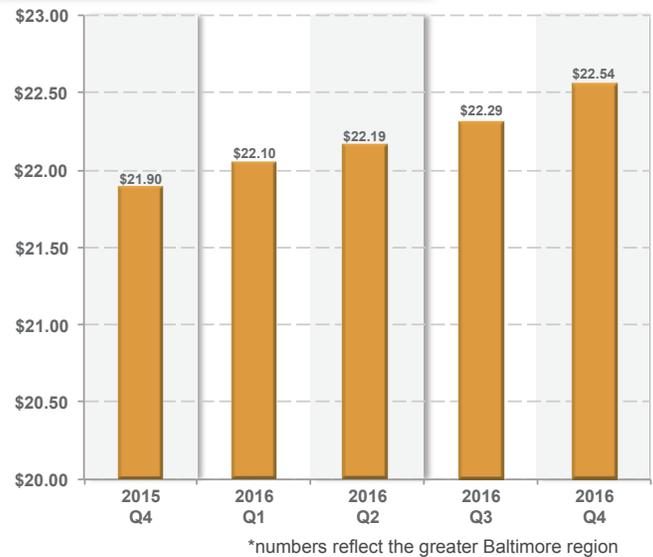
COLUMBIA, MARYLAND - TRENDING NOW (continued)

due to the fact that new deliveries and ongoing construction activity have been concentrated there. That submarket had 367,000 square feet of new space delivered in 2016 and over 124,000 square feet remained under construction as the year ended. Columbia North and Columbia South ended 2016 at \$25.97 and \$24.51, respectively.

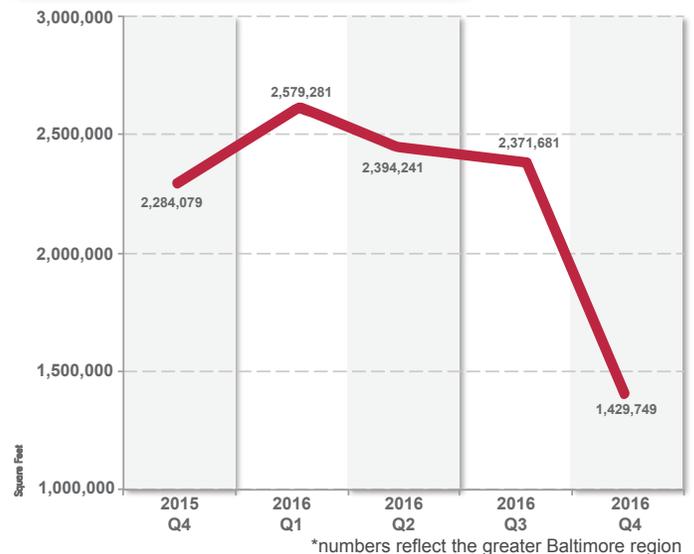
Columbia Town Center was also the net absorption leader for the year, adding a 190,000 square feet net gain in occupied space, second only to the Baltimore Southeast submarket. Columbia South increased total occupancy by 161,000 square feet, while Columbia North added a more modest 16,000 square feet. Tenants continue to leverage new workplace and mobile technologies in order to utilize less space when they relocate, which has dampened net absorption results.

The local market continues to attract the attention of large investors. Abramson Development just purchased five buildings, totaling 200,000 square feet, from Greenfield Partners in the Columbia Gateway business Park. The 95% leased buildings sold for \$31,775,000, or \$157 per square foot. They see the opportunity to increase rental rates and reduce concessions as the vacancy and absorption metrics continue to improve.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

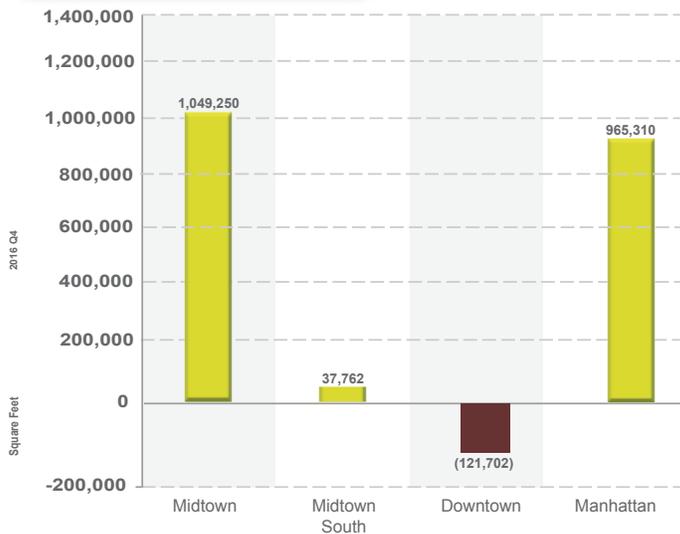


A LOOK AHEAD

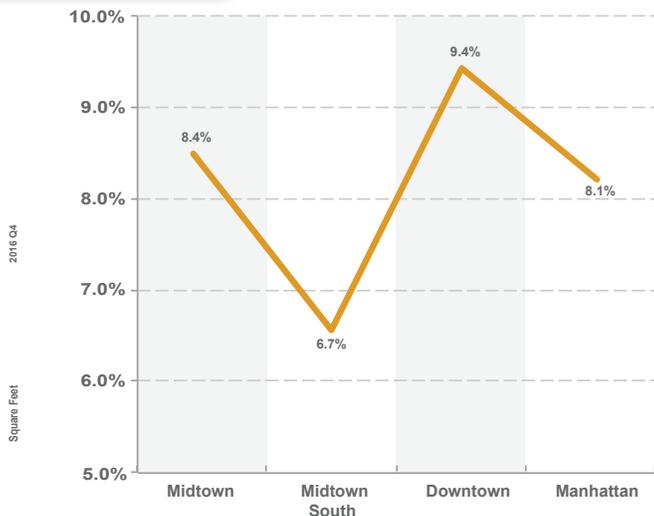
- Strong net absorption should continue even as new deliveries come on line
- Vacancy will trend slightly lower in 2017
- Asking rents for Class A space are in the \$27 range, but will move into the high \$30's in new buildings
- Sales prices for Class A assets will have asking rates in the high \$200 per square foot range in 2017
- Environmental regulations due to proximity to the Chesapeake Bay will restrict new supply of office space
- Open workplace layouts and more flexible working hours will decrease the per-person space allocation

MANHATTAN

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Manhattan has three major market areas, Midtown, Midtown South and Downtown, each with distinct characteristics that attract particular user types. In essence, Manhattan's story is a tale of three cities. So, it is important to look at all three together and then each alone to develop a clear picture. Lee & Associates tracks buildings with at least 100,000 rentable square feet throughout the city, except for SoHo and NoHo, where buildings greater than 50,000 square feet are quantified.

The decline in office leasing activity throughout Manhattan continued in the final quarter of 2016. Overall net absorption was positive at 965,310 square feet. Despite a second-half slowdown in market activity, the overall asking rental rate was unchanged at \$71.75, and as the year ended, over 14.7 million square feet of new office space was still under construction with delivery dates extending as far out as 2021. There are also several major projects undergoing renovation that are scheduled for completion in 2017.

Midtown, famous for being home to many of the country's largest companies, experienced a 24% decline in overall leasing activity for the quarter. While big declines occurred in the Midtown West and Times Square submarkets, leasing activity was up substantially in Midtown East and Rockefeller Plaza. In all of 2016, almost 16 million square feet of office space was transacted. Average asking rents also slipped the final quarter. The Plaza District submarket still commands the highest rate, at \$109.37, but that represents a decline of \$2.82 in the period. For all of Midtown, the average asking rate moved lower in Q4, declining by \$2.27 to \$81.50. Net absorption was back in positive territory after five straight periods of negative growth in occupied space. In Q4 just over 1 million square feet of net gain was recorded. Vacancy declined by 40 basis points to end the year at 8.4%.

8.1%

VACANCY

\$71.75

AVG. SF RENTAL RATES

965,310

NET SF ABSORPTION

479,000,000

INVENTORY (MSF)

14,716,993

SF UNDER CONSTRUCTION



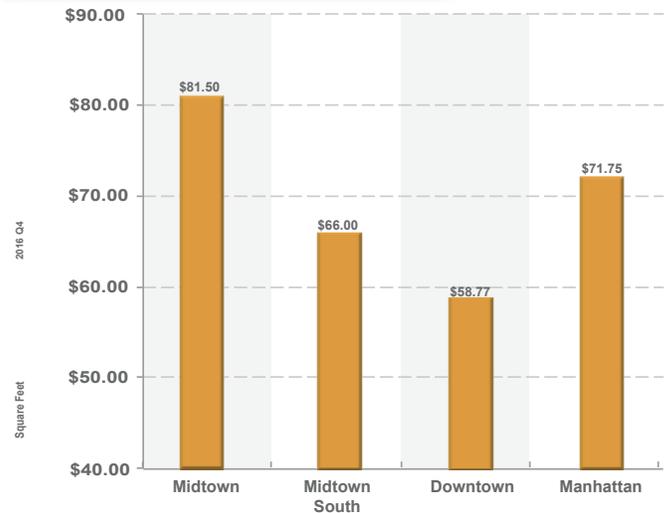
MANHATTAN - TRENDING NOW (continued)

One of the largest transactions in Midtown for the quarter was a 380,000-square-foot lease Major League Baseball Enterprises at 1271 Avenue of the Americas. The move is part of a consolidation of operations currently located at 245 Park Avenue and 75 Ninth Avenue.

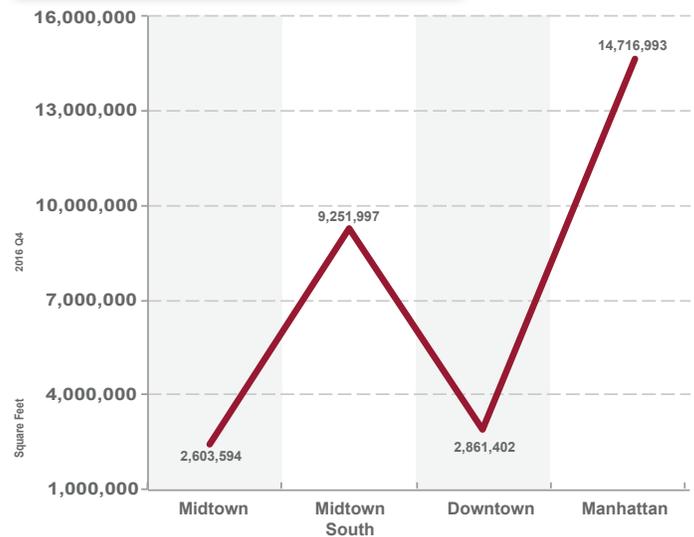
Midtown South is a fast-growing section of Manhattan that is also known as "TAMItown" because of the growing number of technology, advertising, media and information companies. They are looking for locations that are attractive to younger workers who prefer a live/work/play lifestyle that excludes cars and home ownership. Midtown South also has the highest concentration of buildings under construction. Over 9.25 million square of space is currently being built, nearly 63% of Manhattan's total. Leasing activity in Q4 was down by 4% in the period, but that followed a 25% decline in Q3. The average asking rate in Midtown South fell by \$1.08 in Q4 to end the year at \$66.00. Net absorption was light in the final quarter, but did manage a gain of 37,762 square feet. The Gramercy/Flatiron submarket saw a gain of 163,647 square feet, but that was offset by a decline of 170,322 square feet in the Penn Station-Garment submarket. The total vacancy rate stood at 6.7% as the year ended, unchanged for the period.

Downtown, which includes the World Trade Center, is a hybrid market, offering a variety of product types that attract users from both Midtown and Midtown South, in part due to lower lease rates. However, market momentum slowed during the second half of the year. In Q4, the overall asking rate declined by \$3.00 to \$58.77, and net absorption posted a second consecutive quarterly decline, bringing the net loss in occupied space in the second half of 2016 to over 551,000 square feet. A substantial increase in sublease space is largely to blame. The World Trade Center posted a 76% decline in leasing activity in Q4, finishing the period with just 91,949 square feet of completed transactions.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

- Delivery of new construction and major renovations may cause a spike in supply
- Rent growth may taper off next year due to higher inventory levels next year
- Some landlords will increase concessions to achieve higher lease rates
- Foreign investors will keep demand for investment properties running well ahead of supply
- Cap rates for investment properties will remain compressed in the mid 4% range
- TAMI sector will lead the way in terms of job growth and leasing activity

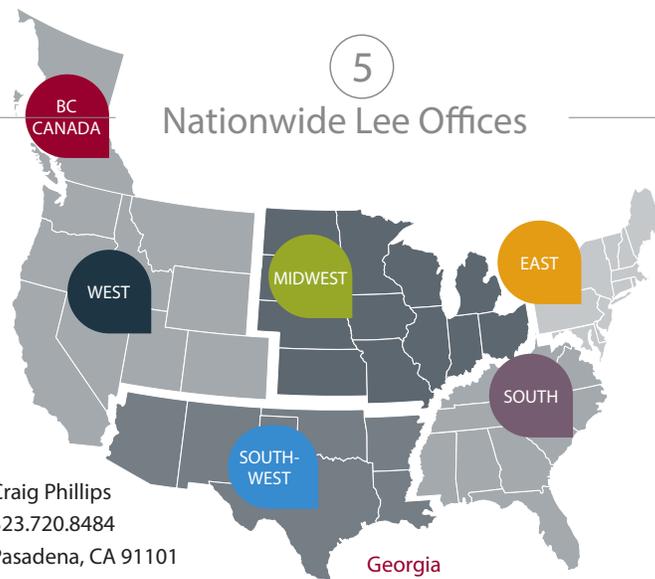
SELECT TOP OFFICE LEASES Q4 2016

BUILDING	MARKET	SF	TENANT NAME
145 Broadway	Boston	486,048	Akamai Technologies
875 Chesterfield Pkwy W	St. Louis	460,000	Pfizer, Inc.
211 Main St	San Francisco	394,704	Charles Schwab & Co., Inc.
Midtown 21	Seattle/Puget Sound	381,491	Amazon.com, Inc.
1271 Avenue of the Americas	New York City	380,983	Major League Baseball
Centre 425	Seattle/Puget Sound	352,009	Amazon.com, Inc.
17301 Preston Rd	Dallas/Ft Worth	317,270	Shelton School
101 Ash St	San Diego	315,000	City of San Diego
Amerisource Bergen Special Grp	Dallas/Ft Worth	300,000	Amerisource Bergen Specialty Group, Inc.

SELECT TOP OFFICE SALES Q4 2016

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
State Farm Office Campus	Dallas/Ft Worth	1,934,172	\$399.70	5.74%	Transwestern Investment Group	State Farm Mutual Auto Ins Co
1250 Broadway	New York City	770,000	\$733.77	2.9%	Global Holdings Mgmt (US)	Jamestown, LP
Southeast Financial Center	Miami-Dade County	1,225,000	\$421.71	N/A	Ponte Gadea USA, Inc.	JP Morgan Chase & Co.
505 Howard St	San Francisco	291,032	\$1,140.87	4.8%	American Realty Advisors	Tishman Speyer
KOMO Plaza	Seattle/Puget	294,488	\$936.65	N/A	GI Partners	Hines Global REIT, Inc.
Falchi Building	Long Island, NY	711,194	\$358.55	5.5%	Savanna Real Estate Fund	Jamestown

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