The Lee Office Brief

Q1 2017

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LEE & ASSOCIATES®

COMMERCIAL REAL ESTATE SERVICES

Lee & Associates Overview

62% increase in transaction volume over 5 years

$11.6 billion transaction volume 2016

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

890 agents and growing nationwide

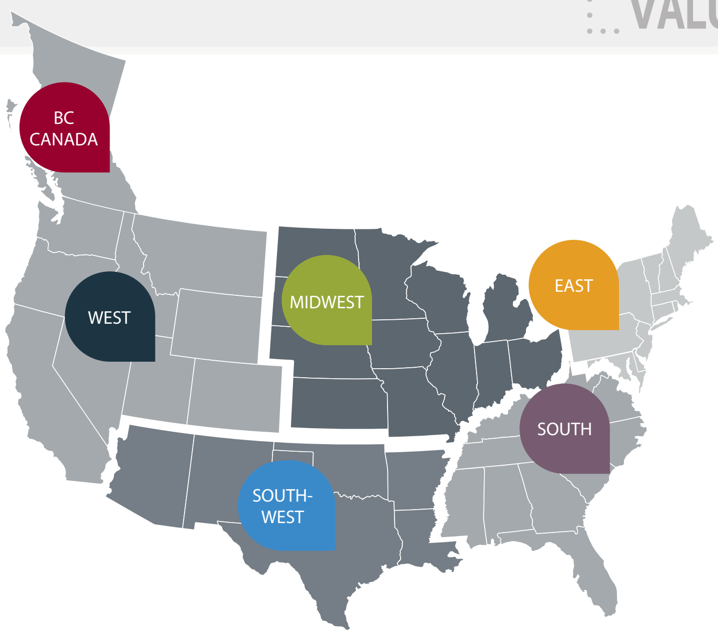
LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS.

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

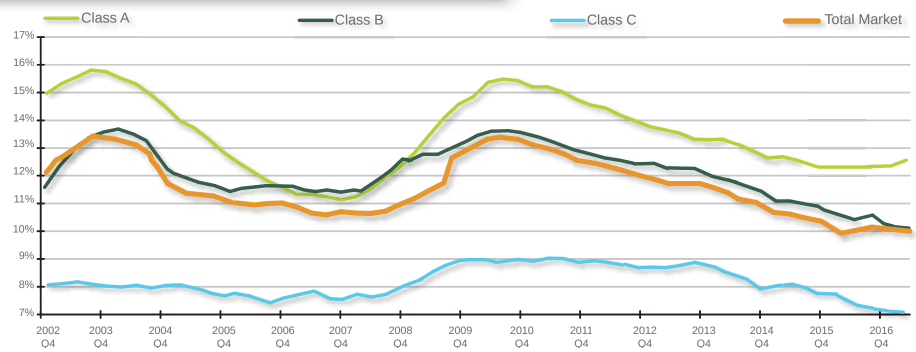
Vancouver, BC
Canada

US OFFICE MARKET

Office Market Taps the Brakes in Q1

The US office market showed signs of fatigue in the first quarter of 2017. Vacancy was unchanged, rent growth slowed, deliveries were flat and net absorption, while still positive, declined substantially. Sublease inventory also moved higher. Altogether, it has experts wondering whether the long steady recovery in the office sector is showing signs of fatigue. Major markets including New York City, Los Angeles and even tech-darling San Francisco posted significant negative net absorption in Q1, as did Atlanta, Houston and Hartford.

VACANCY RATES BY CLASS 2002-2016

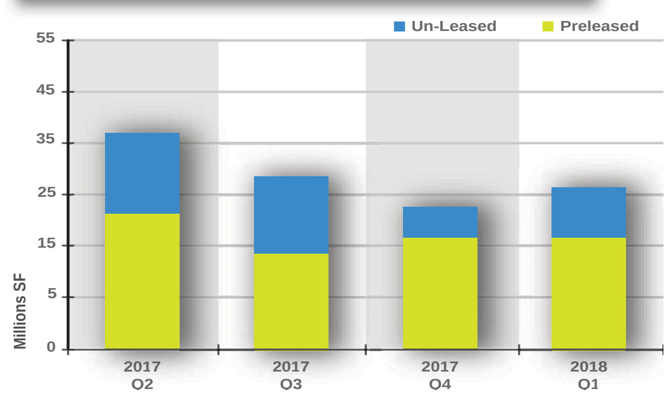


Taking a closer look at net absorption, which is the key indicator of market expansion, the first quarter total of 10.8 million square feet was a bit of a surprise. In Q4, over 23 million square feet of net gain was recorded, after gains of 37 million and 36 million square feet in the previous two quarters. In fact, more than 40 markets tracked by CoStar posted net losses in occupied space for the quarter. It is too early to say what long term significance poor absorption for the quarter has, but multiple quarters of declining market growth is worth noting. Downsizing caused by changes in workplace design may be partly to blame for the reduction in net absorption. No sector is immune from the trend in open space design precipitated by demographic shifts in the workforce and the leveraging of advances in mobile technology.

Only four markets posted net absorption in excess of 1 million square feet. Leading the way was Washington, DC at 2.75 million square feet, followed by Chicago at 2.5 million square feet, Dallas/Ft. Worth at 1.5 million square feet and Boston at 1.1 million square feet. Major market posting disappointing Q1 results included New York City at negative 1.6 million square feet, Los Angeles at negative 1.3 million square feet and Hartford at negative 803,000 square feet. By building class, net absorption remains relatively well-balanced, as Class A, B product reported gains of 5.9

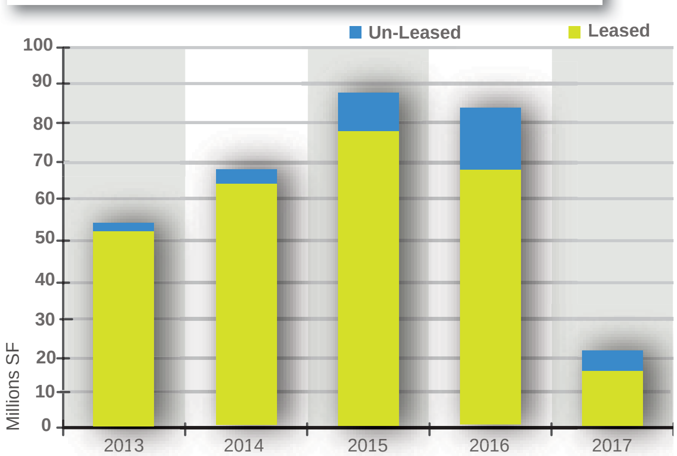
FUTURE DELIVERIES

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



RECENT DELIVERIES

LEASED & UN-LEASED SF DELIVERIES LAST 5 YEARS



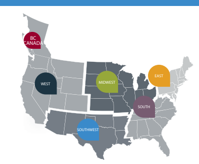
ECONOMIC DRIVERS

Click below for info on...

A LOOK AHEAD

GDP GROWTH

EMPLOYMENT

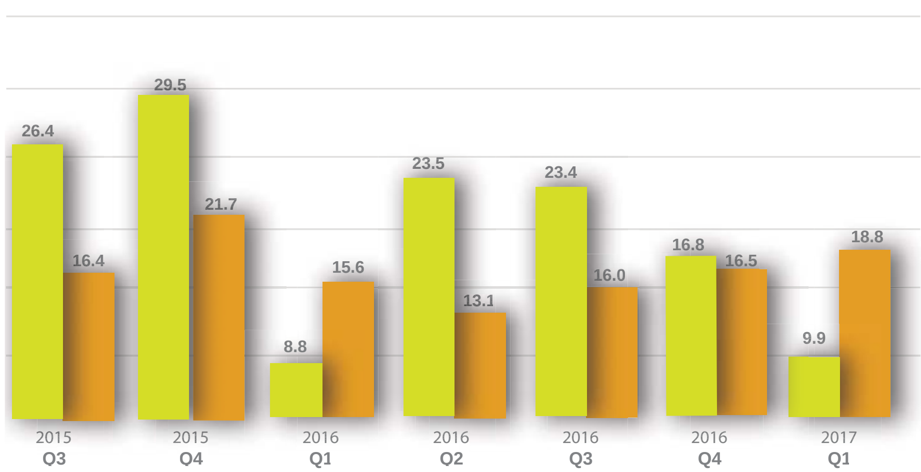


MONETARY POLICY

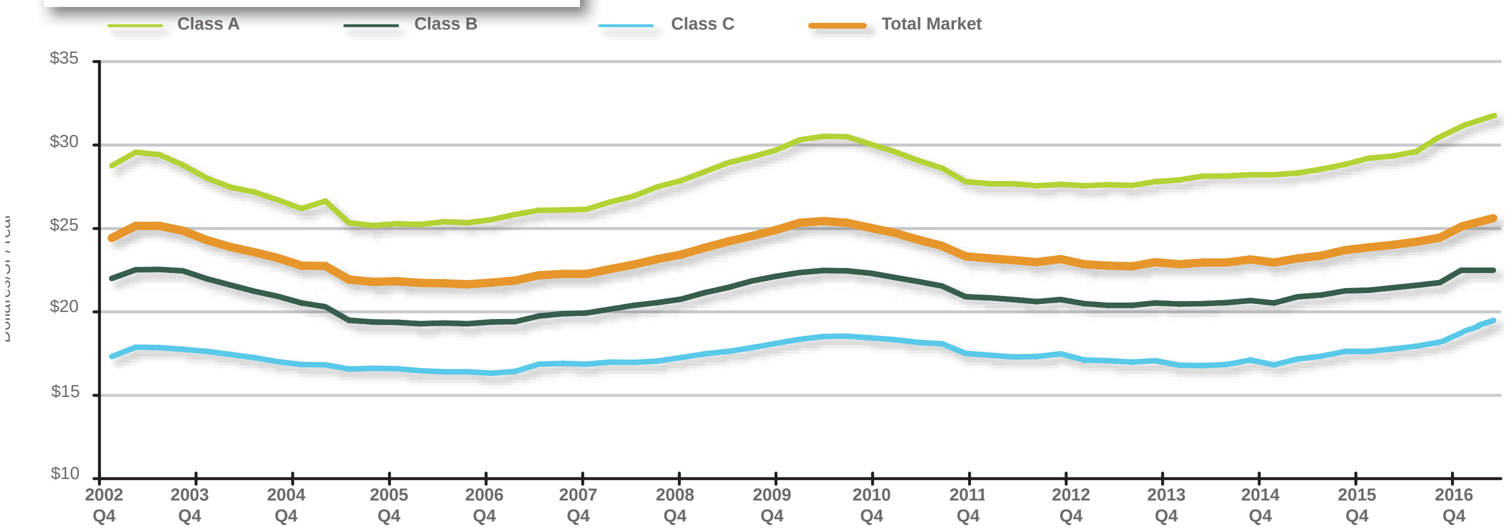
million and 5 million square feet respectively. In terms of Suburban versus Central Business District (CBD) performance, the difference is stark. Absorption 1.25 million square feet to the negative in CBD markets and 12 million square feet to the positive for Suburban markets. It's the suburban submarkets featuring urbanized hubs that appeal to employers most, as they choose locations that will attract and retain workers who are increasingly in to the live, work and play lifestyle. 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.

The vacancy rate, which stood at 9.7% as Q1 ended, was unchanged for the second consecutive period, but it is down 20 basis points in the last four quarters. By building class, it is a story of opposites. Vacancy for Class A is up 20 basis points over the past four quarters, while Class B vacancy has declined in each of the last four periods to end Q1 at 9.7%. Suburban and CBD vacancy is just 10 basis points apart at 9.7% and 9.8%, respectively.

ABSORPTION & DELIVERIES PAST 7 QUARTERS



HISTORICAL RENTAL RATES 2002 - 2016
BASED ON FULL-SERVICE EQUIVALENT RENTAL RATES



Average asking lease rates for the US moved up again in Q1, adding another $.13 to $24.44 per square foot. That is a .5% increase for the period. Asking rents keep 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 still seeing rent declines and bigger concessions, mainly to due to large blocks of long term sublease space that compete with direct space offerings.

The level of new deliveries has been within 1 million square feet for the past four quarters. In Q1, 21.3 million square feet of new office space was delivered, compared to 20.3 million square feet in Q4 of 2016, 20.9 million square feet in Q3 and 20.1 million square feet in Q2. This has allowed the market to expand with minimal risk of overbuilding. The quarter ended with another 154.4 million square feet of space under construction, 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 15.75 million square feet underway. Dallas/Fort Worth is not far behind at 11.9 million square feet, followed by Washington DC at 11 million square feet, South Bay/San Jose (Silicon Valley) at 9.9 million square feet and San Francisco at 8.1 million square feet. Another tech-heavy market, Seattle/Puget Sound, rounds out the top five at just under 8 million square feet. The largest project underway in Q1 is still 3 World Trade Center, a 2.86-million-square-foot tower in Manhattan. That building is set for delivery in the first quarter of 2018 and is 37% preleased. Five of the six largest projects currently under construction in the US are located in Manhattan.

Developers to focus on mixed-use projects in urbanized, amenity-rich areas that will bring the highest rents. Land and construction costs have been steadily rising and the entitlement process is more expensive and takes longer to navigate through. Lenders are tightening up on underwriting and preleasing requirements make purely speculative projects harder to make happen. Unlike their industrial counterparts who can rely on the e-commerce and 3PL sectors to keep expanding in large space increments, office builders don't have a particular user type to count on to gobble up large blocks of space.

Institutional and private investors still have good quality office buildings at the top of their wish lists. That, and the appetite of foreign capital for US office property assets, has driven cap rates to historical lows. However, as a tighter monetary policy matures, yields in other asset classes should rise. A 50 basis point rise in the going-in cap rate in a 5%-cap world really moves the value needle and that is weighing heavier on the minds of prudent investors. If rent growth slows as it has in some markets across the country, the loss in property values could be substantial. Foreign buyers are the wild card, as their motivation lean toward capital preservation over yield.

A LOOK AHEAD

The US office market lost some momentum in the last two quarters, and needs some good news in Q2 to get back on track. US employment growth has been sporadic of late and that has experts wondering if the market expansion can be sustained going forward. Job growth in office-using sectors drives net absorption and the twelve month rolling average of jobs created each month has declined. After two good months to start the year, March job growth fell significantly to just 98,000, well below the threshold needed to absorb new entrants into the workforce. Wage growth has improved somewhat over the past year, but the increase in inflation, touted by our central bankers, is neutralizing those gains.

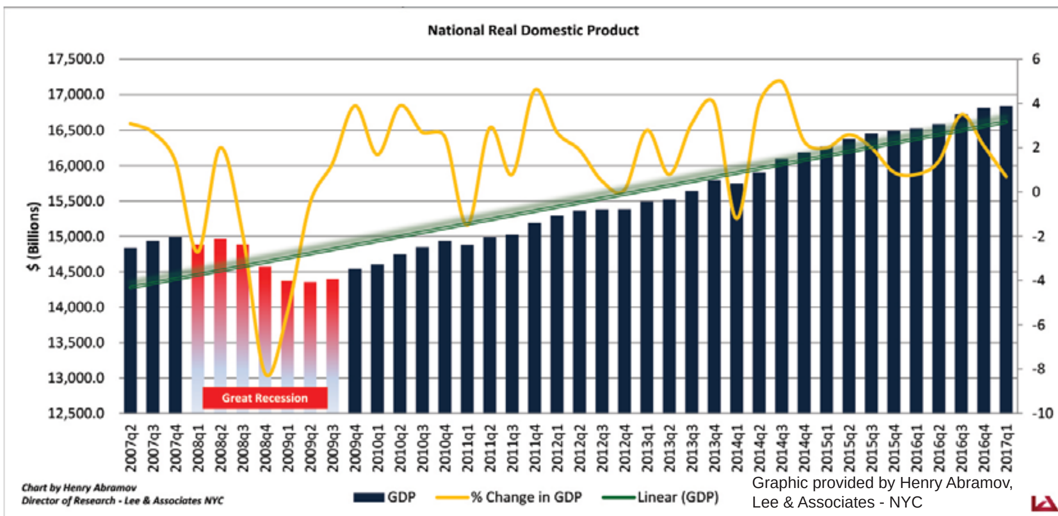
Rent growth will continue, but probably at a more tepid pace going forward. Tenants will keep looking for new ways to do more with less by leveraging communication technologies and preference for open floor plans preferred by their employees. They will trade higher rental rates for space efficiency. Owners of 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.

GDP GROWTH

The US 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. So, US GDP, the primary metric for tracking the total output of goods and services, is closely watched around the globe.

Annualized US GDP growth in Q4 of last year topped 2.1% on the third and final revision. However, total growth for all of 2016 was just 1.6%, well short of the 2.4% growth rate recorded in 2015. Unfortunately, the US economy is off to another slow start in 2017, with the preliminary estimates of annualized GDP growth coming in under 1%. The question that still remains is whether or not US companies and consumers will accept a slower growth model as the "new normal" and press forward in a way that promotes further growth.

QUARTER-TO-QUARTER GROWTH IN REAL GDP



Until 2016, the US looked relatively good compared to Europe, as growth across the pond had been flat despite drastic monetary and fiscal measures to keep the European Union member countries from sliding into recession. The European Central Bank is even experimenting with Negative Interest Rate Policy (NIRP) and it continues with a massive bond-buying program to keep the cost of capital near historic lows. In 2016, the European Union grew at 1.8%, besting the US for the first time in recent memory, but that fact leaves a lot of experts wondering what the result would have been without all the meddling by central bankers.

Political turmoil, civil unrest and economic challenges around the world still weigh heavy on the minds of central bankers, and the US Fed is among those keeping a close eye on global goings-on. Changes here at home are also on the radar of those who follow GDP closely. The Trump Bump after the election surprised the world and equities markets have soared on the expectation of lower corporate and personal income tax rates, reduced regulations and a huge infrastructure spending program. But, GDP growth received no boost at all from the enthusiasm that followed the November election. Turning campaign promises into real changes in the law is no small feat, as evidenced by the recent failure of the legislation to repeal and replace the Affordable Care Act. Our political system is designed to have big change occur over time, and checks and balances built into the US Constitution protect the party in the minority. Tax reform is next on the legislative priority list, and it stands to face significant opposition from Democrats and some Republicans in both houses of Congress. So, GDP growth will remain dependent on current laws for the foreseeable future. Though, the psychology of decision making appears to be more positive, as the prospects of a more business-friendly economic environment are still on the rise.

GDP GROWTH

Corporate earnings finally bounced back in Q4 and kept momentum in the 1st Quarter of 2017. For much of 2015 and 2016, companies were resorting to cost-cutting and stock buyback programs to increase profits. In Q4 of 2016, that seemed to turn around and more companies reported revenue increases, which would ordinarily contribute to GDP growth. However, ongoing cost cutting means more job cuts and lower consumer spending, which accounts for roughly 70% of GDP. If earnings growth continues, we should see a positive impact on GDP growth later in the year.

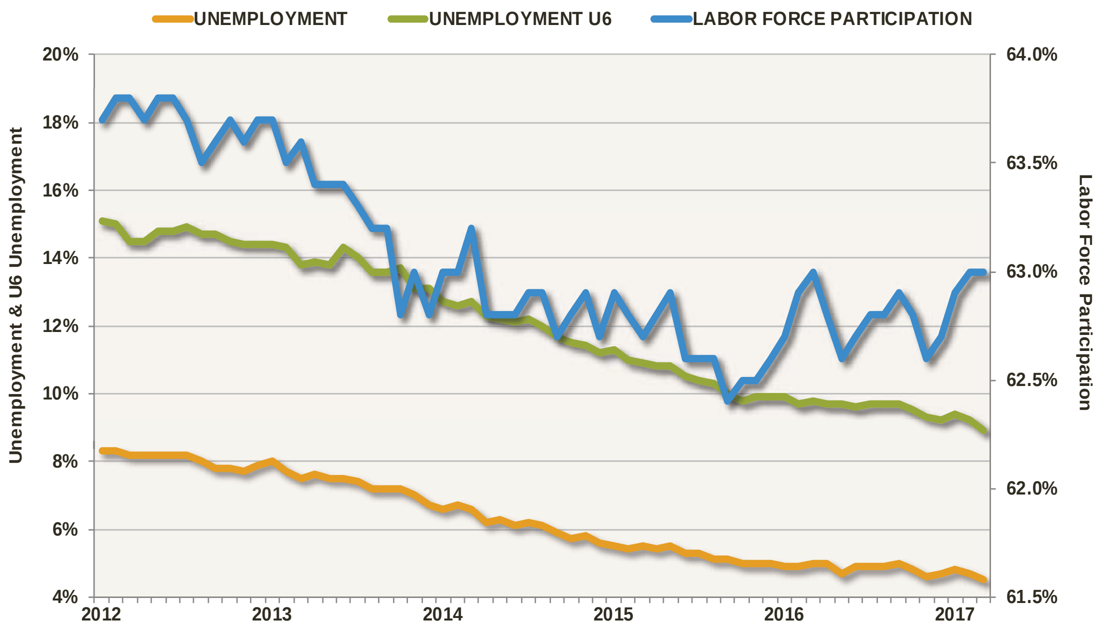
Perhaps the biggest concern relative to GDP growth is the performance of the automotive sector, which significantly impacts manufacturing output, job growth and consumer spending. In the final quarter of 2016, incentive-driven car sales accounted for a disproportionate share of GDP growth. That did little for bottom line profits in the sector, but did give GDP a badly needed shot in the arm. Slow sales of non-SUV vehicles are likely to weigh heavy on automobile manufacturers in Q1 and, most likely, throughout 2017, which will negatively impact GDP growth.

EMPLOYMENT

Job growth statistics are a moving target because of the rather odd way they are compiled. The U3 unemployment rate, the most widely quoted in the media, includes those who are employed and those of the unemployed who have actively sought employment in the most recent five weeks. We are still not sure who came up with U3, but we wish they hadn't because it quite 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. March 2017 numbers make a good example. A dismal 98,000 jobs were created in March (well below the number needed to keep up with new entrants to the workforce) yet the unemployment rate went down 20 basis points. Conversely, 235,000 jobs were created in February of 2017 and the U3 unemployment moved just 10 basis points lower. These anomalies happen with some frequency and have caused many to discount the validity of the Bureau of Labor Statistics' U3 metric that removes from the calculation those workers who have not been actively seeking employment in the most recent 5 week period.

The U6 unemployment rates counts those working part time in their field of choice, who would prefer to be working full time, as unemployed. Many believe U6 offers 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. The U6 unemployment rate is still double that of U3, at 8.9%.

NATIONAL UNEMPLOYMENT



Job creation slowed in 2016, but did get off to a good start in Q1 of 2017. The 12 month rolling average of new positions had fallen by over 50,000 in the past year, but the pace picked up again in the first two months of the year. Then came March when an unexpectedly low 98,000 new jobs were created. Some say February stole from March due to a higher level of construction jobs coming early due to warmer weather. Wild swings in job growth impact consumer spending and business expansion. Companies large and small tend to more cautious in making long term decisions that have a big impact on hiring.

EMPLOYMENT

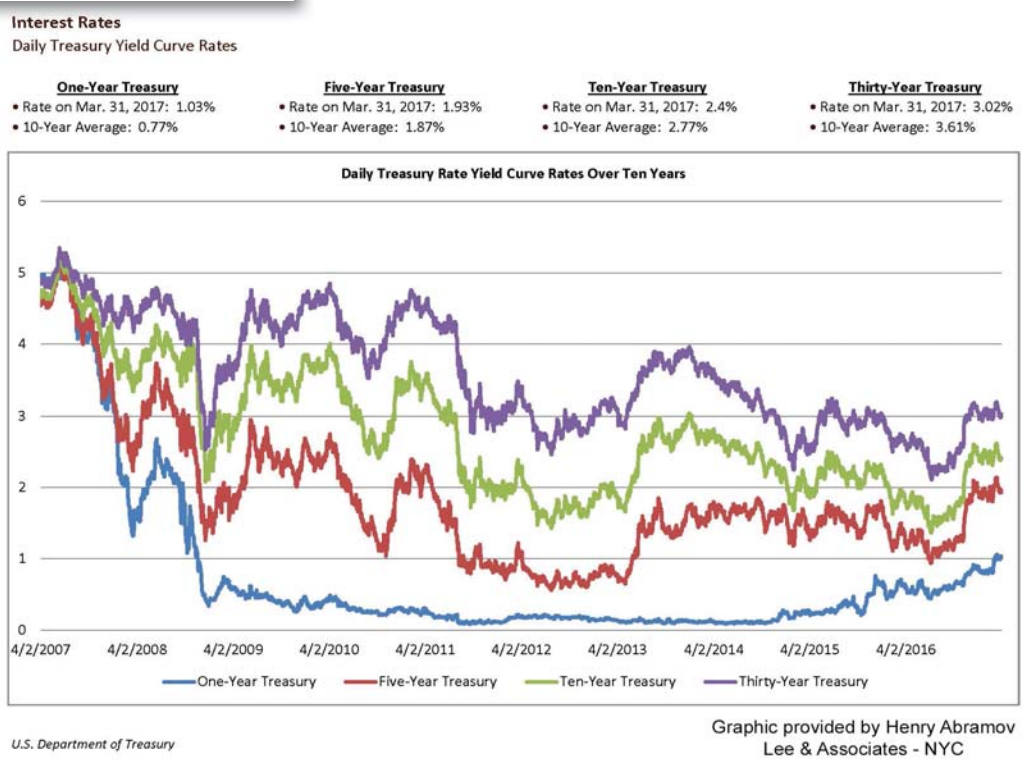
The Labor Participation Rate, the metric that measures the percentage of those eligible for employment between the ages of 16 and 64 who are currently working, also remains near a four-decades low. A loss of job growth momentum and the early retirement of Baby Boomers, have combined to keep just 63% of potential workers in active production.

Lagging wage growth remains a problem that has kept a lid on US economic growth. Full-time, high-paying jobs are available, but too few applicants are qualified. Lower-skilled workers are relegated to jobs that make it difficult to get ahead. Wage growth has seen some improvement having tracked at an annualized a rate of just under 3% for the past several months.2.9%. But, for workers earning a middle income wage, a 3% increase may not change spending habits enough to move the needle on economic growth. Roughly two-thirds of that increase goes to cover current inflation, leaving little for new purchases that would boost GDP. As a direct result, many middle class workers feel like they have been left on the economic sidelines.

MONETARY POLICY

After years of sending cryptic mixed signals, the Fed finally stepped up in December of 2016 and again in March of 2017 by sending its benchmark Fed Funds rate by a combined 50 basis points to 1%. By historical standards, that is still low, and it will take a sustained series of quarter-point increases to fully neutralize the activist posture of our central bank. Since the financial crisis that began at the tail end of 2007, the Fed has been aggressively manipulating the cost and flow of capital to the point that it has drawn heavy criticism for taking a more active role than it should have. Some believe our central bankers are largely responsible for what could be a bubble in the equities and commercial property markets, as both have seen disproportionate gains throughout the economic recovery.

US TREASURY RATES
IN PERCENTAGE



Graphic provided by Henry Abramov
Lee & Associates - NYC

Fed rate hikes generally strengthens the US dollar making exports more expensive and effectively raises the debt service on dollar-denominated loans for borrowers around the world. However, the spike in the dollar has quieted some in recent months and its impact on the rest of the world found on the front page less often. What may become big news soon is the potential impact of reducing the Fed's balance sheet, which swelled to over $4.5 trillion after several years of bond-buying known as quantitative easing (QE). That money, created in a computer on an as-needed basis, has to go back into the computer to be removed from circulation. Speculation from some Fed officials indicates that the balance sheet problem will be addressed sooner than later. To date, the Fed has been reinvesting proceeds from maturing T-bills by buying more T-bills. When that changes, bondholders will be watching carefully just in case the market doesn't take the adjustment in stride. For many who fear the inflationary impact of the dilution of the US dollar associated with QE, the Fed's decision to clean up its balance sheet will be welcome news.

MONETARY POLICY

Despite the Fed's more robust monetary stance, central banks around the world are still at full throttle in terms of monetary stimulus. The European Central Bank and the Bank of Japan are still toying with negative rates, which certainly doesn't telegraph a bullish outlook for economic growth. Both banks continue to buy corporate bonds in addition to their own sovereign debt. The Bank of Japan is running out of government debt to buy back and have resorted to buying individual stocks, which is against the law here in the US. Critics are not bashful in criticizing these drastic measures, which are largely untested and could have consequences down the line.

Concerns of a near term recession here in the US have subsided, at least for now. The surprise election of Donald Trump as President sent markets on a tear and drowned out the voices of the economic naysayers who predicted a bursting of a stock bubble and the beginnings of an economic correction. If such a thing did occur, at least the Fed has extricated itself from the corner it painted itself into by keeping rates at the zero bound for so long. With Q1 GDP growth so weak, having some room to maneuver is probably not a bad thing. It only takes two consecutive quarters to be in recession, and first quarter growth under 1% lends little comfort.

Trump's promise of a big infrastructure investment has buoyed hopes that the Fed will get a little help from Congress and the White House. But, the deficit hawks on the political right are loathe to let deficits move higher on their watch. If the recent failure to repeal and replace the Affordable Care Act is any indication, it could be a long year for Mr. Trump, Speaker Ryan and Majority Leader McConnell. At the end of the day, the Fed may not get the assist and will opt to keep its foot on the economic gas pedal.

If that turns out to be the case, borrowers will continue to enjoy low interest rates. Mortgage rates have begun to move up, but remain near historic lows Most commercial property lenders use a spread over the yield on the 10 Year T-bill to set mortgage rates, and that yield is currently stabilized in the 2.4% range, which mortgage rates will remain slightly under 5%. For the moment, it's still a good time to borrow money.

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.

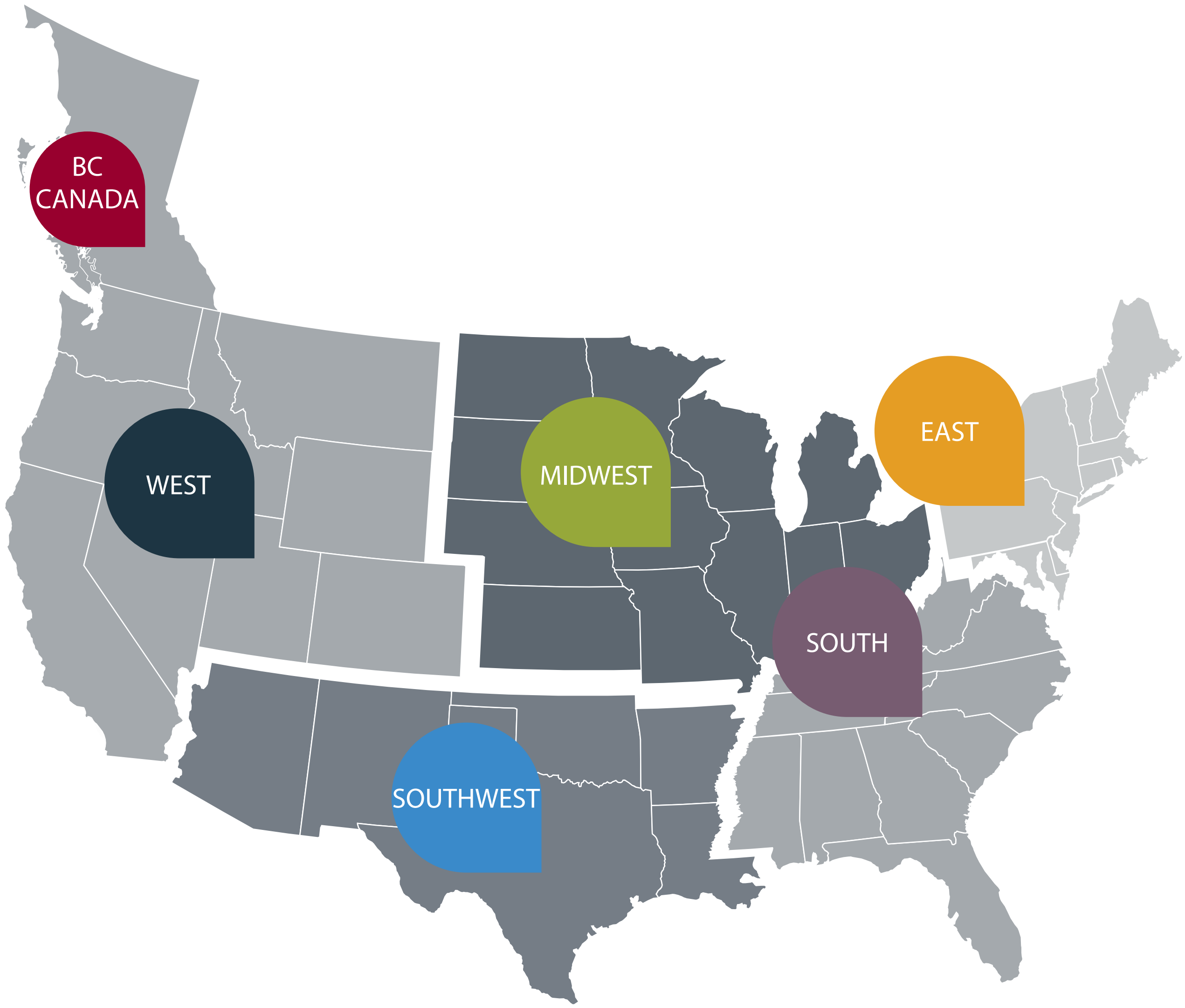
When the UK made its surprise decision to leave the EU, the long term survival of the union was called into serious question. However, while Europe's political union is still in doubt, GDP growth across the pond has picked up. EU GDP growth for 2016 bounced back up to 1.8%, 20 basis points higher than the US growth rate. Yet the aggressive monetary policy of the European Central Bank continues and calls for fiscal austerity fall on deaf ears. That, and the ongoing nationalist fervor whipped up by a huge influx of refugees from the Middle East, leaves a lot of unanswered questions on the continent.

EURO AREA REAL GDP[2]
(QUARTER-ON-QUARTER PERCENTAGE CHANGES)

The recent OPEC agreement to cap production helped to stabilize the price of a barrel of oil above $50 in Q1 of 2017. Even non-OPEC players like Russia and Venezuela cut production to help bring reduce supply. But, US producers have increased output to fill a perceived gap, and the active rig count continued to rise through the first three months of the year. Supply is still running ahead of demand and without more robust economic growth around the world, oil prices are not likely to rise much beyond current levels.

Oil-rich Middle-Eastern countries, including Saudi Arabia, are still burning through cash reserves to cover oil revenue shortfalls. Even China is issuing government debt to help it cope with its ongoing transition from an export based economy to one more reliant on domestic consumption. But, a recent spike in import/export activity in the Asia Pacific region is cause for cautious optimism that world trade may be on a sustainable upswing, which would give world GDP growth some needed momentum.

Key Market Snapshots



EAST BAY / OAKLAND
LA NORTH
ORANGE COUNTY
DENVER

PHOENIX
DALLAS
HOUSTON

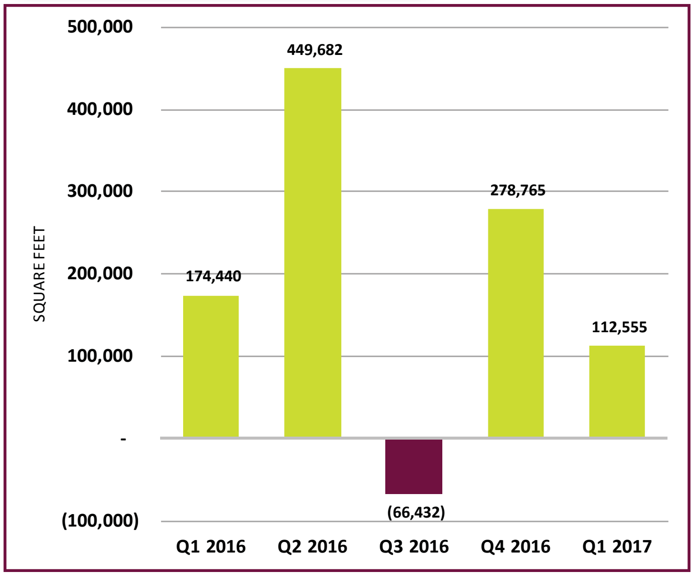
MINNEAPOLIS

ATLANTA
CHARLESTON

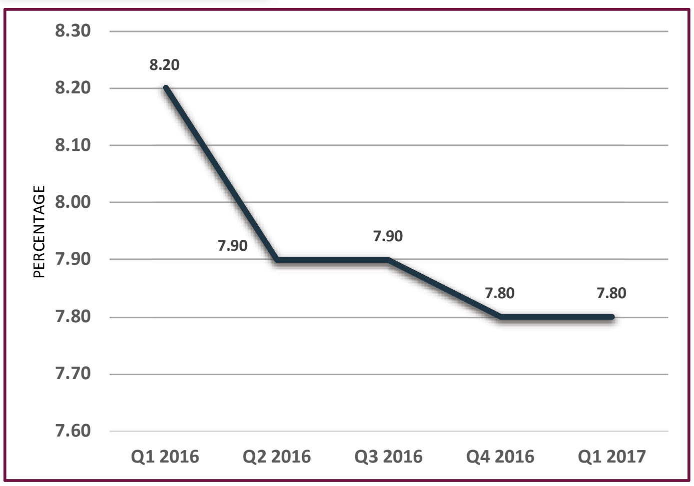
NORTHERN NJ
COLUMBIA / MARYLAND

EAST BAY / OAKLAND

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 10,000 square feet

TRENDING NOW

The Oakland/East Bay market continues to benefit from its proximity to the nation's hottest tech market across the San Francisco Bay. All office market metrics continue to improve, especially if you already own property in the area. Rents are rising, absorption is positive and vacancy has moved lower. As a result, sales prices have risen dramatically, which has become a substantial barrier of entry for new investors. Leasing activity has been boost by the big tech players like Google, but also from start-ups, making it a very competitive leasing environment. Supply of quality product is beginning to run short in some submarkets.

Net absorption in the Oakland/East Bay market declined in Q1, but remained in positive territory with a net gain of 112,555 square feet. In the past four quarters, 774,570 square feet of net absorption has been recorded. Class A buildings are seeing substantial occupancy gains while Class B absorption has been flat.

San Francisco's lease rates have skyrocketed in the past several years and that has motivated tenants to look across the Bay to lower their occupancy costs. Cross-bay migration has helped to drive rents in the Oakland/East Bay to record highs, as well. The average asking lease rate ended Q1 at $31.19 per square foot, up another $.58, after a $.69 increase in Q4 of 2016. Year-over-year asking rents for all building classes combined have risen by $4.51, or 16.9%. Class A rents moved up $5.34 in the past year to $40.36, while Class B rents are up by $4.58 to $28.78 in the same period.

Clearly, it's still a good time to be a landlord on both sides of the bay, and interest from multiple parties for available space is keeping up the momentum for further rent growth. Tenants have been pushed for longer lease terms, but are now pushing back by demanding shorter terms, hoping for a near term market correction. The entire San

7.8%	$31.19	112,555	110,259,975	1,068,798
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

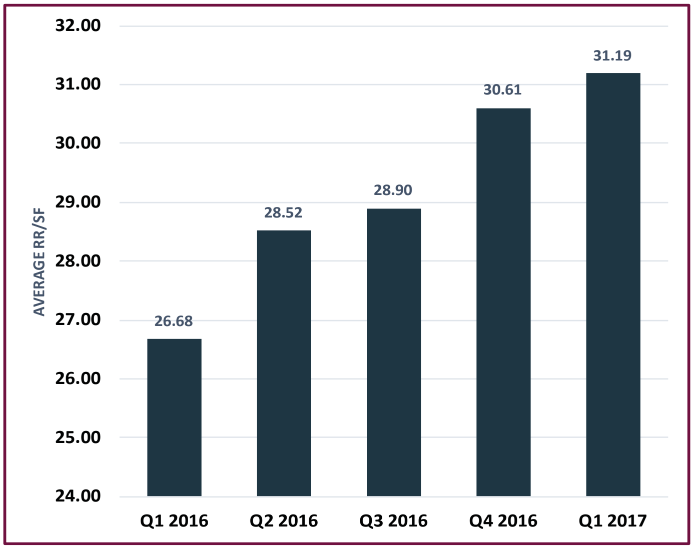
EAST BAY/OAKLAND - TRENDING NOW (continued)

Francisco Bay Area has a history of major market swings that are primarily influenced by the fortunes of the tech sector.

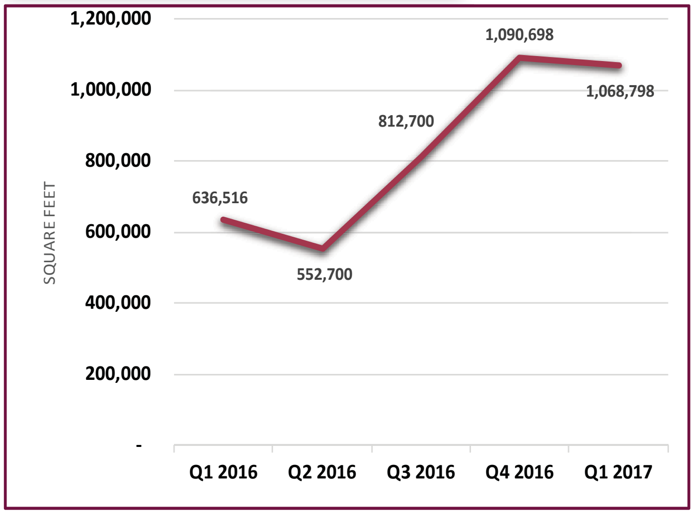
The overall vacancy rate is down just 40 basis points year-over-year and ended Q1 at 7.8%, unchanged in the period. However, the Class A vacancy has been steeper, dropping by 170 basis points, year-over-year, to 7.5% as Q1 ended. Class B vacancy was unchanged in Q1 at 9.5%, but is up 10 basis points year-over-year. Suburban Class A buildings are seeing good activity in the 1,000 to 3,000-square-foot range, but CBD Class A properties are seeing strong interest across the board. Class B space is suburban markets is running short, while owners of Class B buildings in the CBD are investing in their buildings to increase the “cool” factor that is so important to tech sector tenants. Landlords attracting smaller users are being forced to decide on incurring the cost of splitting up full floors or holding out for larger tenants.

Development activity is very light considering the level of demand for office space in the region. Land is scarce and so expensive that developers have to count on very strong rent growth to make projects pencil out. Construction costs have also moved up. That adds significant risk to speculative development, and there is plenty of chatter about the recovery getting a little long in the tooth. Also, lenders are tightening up on loan underwriting for new projects, making it even more difficult to get financing without substantial preleasing commitments at rates above the current market.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

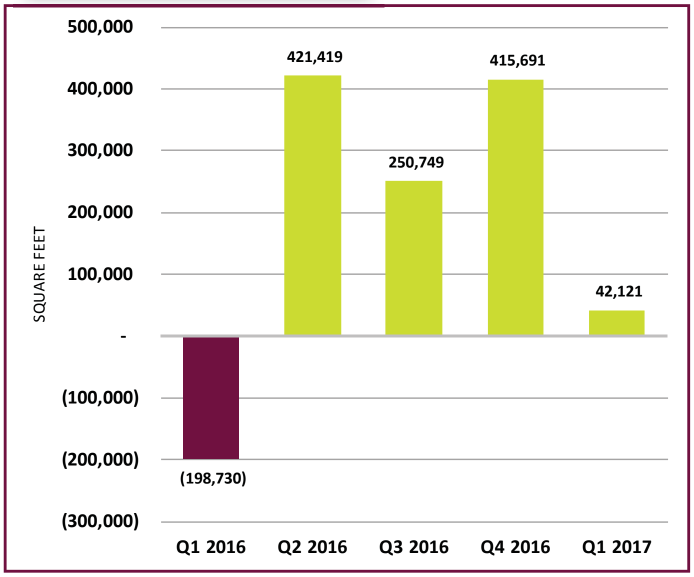


A LOOK AHEAD

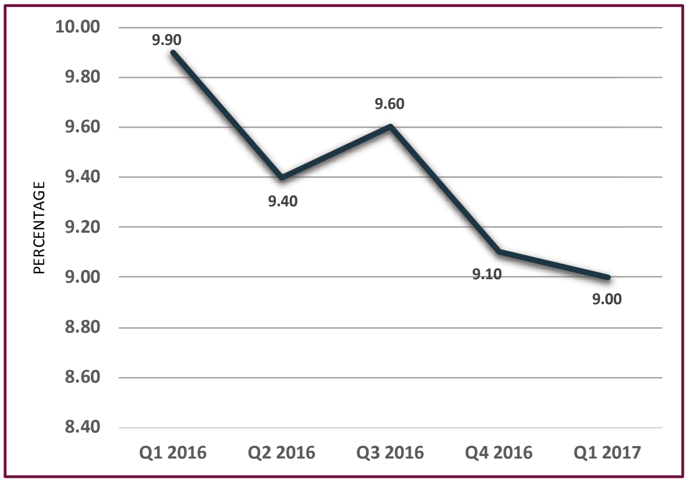
- Lease activity should remain strong for the next 12 months
- Sales prices will increase another 5% to 10% this year
- Net absorption will be steady, but tightening supply could limit growth in occupied space
- Vacancy should continue to decline for the balance of the year
- Asking lease rates will move up another 5% in 2017
- Construction activity will decline as concerns over market conditions upon delivery persist

LOS ANGELES - NORTH

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 10,000 square feet

TRENDING NOW

Following a frothy 2016, first quarter office leasing activity seemed to moderate, and most fundamentals saw little movement. At 1.3 million square feet, leasing activity for Q1 lagged the previous period by 400,000 square feet. The vacancy rate inched 10 basis points lower to end Q1 at 9%. Asking rents fell by $.12 to $29.40 and net absorption slipped to just over 42,000 square feet.

The picture was not much different for Class A properties, which also saw weaker velocity and absorption. Leasing activity was off by roughly 300,000 square feet compared to the prior quarter and absorption fell into negative territory by 7,354 square feet. Asking rents however, inched up another $0.03 to $2.68 per square foot, likely reflecting a general sentiment that, rather than the start of a downward trend, Q1 results represent a temporary blip in an otherwise upward market trajectory.

Still, the economy is throwing off mixed signals. While business owners have been hard pressed to find clarity in the first few months of the new administration, the stock market continued to climb, interest rates moved up and the nationwide unemployment rate fell to 4.5%. The education sector led employment gains in the Los Angeles area with 12,400 jobs added in February, followed by leisure and hospitality, which added 7,300 jobs. However, health care and social assistance lost 500 jobs.

Locally, we saw several major announcements that will have an impact on the commercial real estate industry in general and the office market specifically. Nestle USA announced it would relocate from its Glendale headquarters to Rosslyn, VA, vacating about 400,000 square feet of office space in the Tri-Cities submarket. The move is expected to impact 1,200 local jobs. At the western end of the region,

9.0%	$29.40	42,121	80,560,265	159,595
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

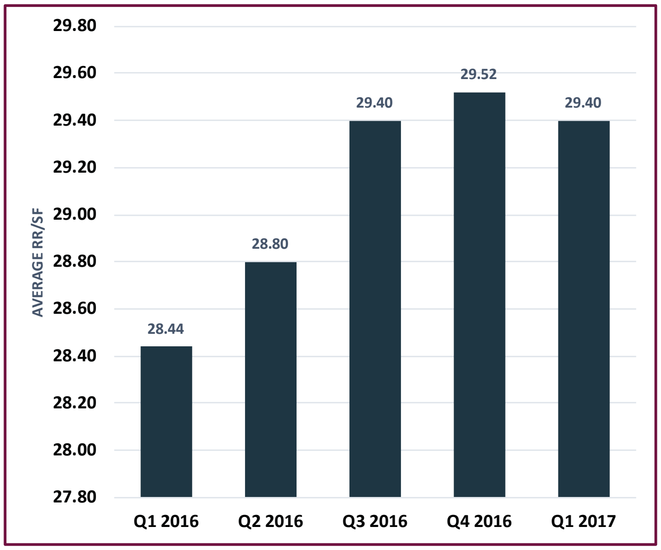
LA NORTH - TRENDING NOW (continued)

biotech giant Amgen announced that it will be cutting approximately 500 jobs from its Thousand Oaks headquarters. Some of those workers are expected to be reassigned to Amgen's newly opened operation in Tampa, FL.

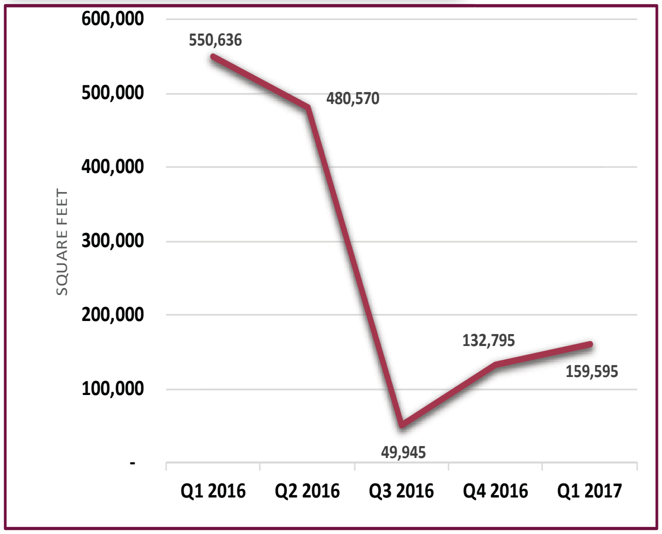
The sales sector was decidedly more consistent. The new year began with a flurry of office building sales, as sellers sought to cash in on current market pricing and buyers took advantage of the rare opportunities that came to market.

Oaktree Capital Management, Los Angeles, acquired a five building portfolio totaling over 800,000 square feet in the Warner Center submarket for $235.5 million or $291 per square foot. In another West San Fernando Valley transaction, an entity of New York-based Somerset Group purchased a Class A asset consisting of two buildings with a total of 230,833 square feet for $51 million or $221 per square foot from an affiliate of the Blackstone Group. A Blackstone affiliate also traded a 103,000-square-foot office building leased primarily to entertainment tenants to 4M Investment Corporation, Los Angeles. Palo Alto-based Menlo Equities acquired the 116,000-square-foot Buena Vista Plaza in Burbank, a property occupied mostly by Walt Disney Company, for approximately $456 per square foot, and an undisclosed investor purchased the 126,275-square-foot Encino Corporate Plaza in the southeast San Fernando Valley for $281 per square foot.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

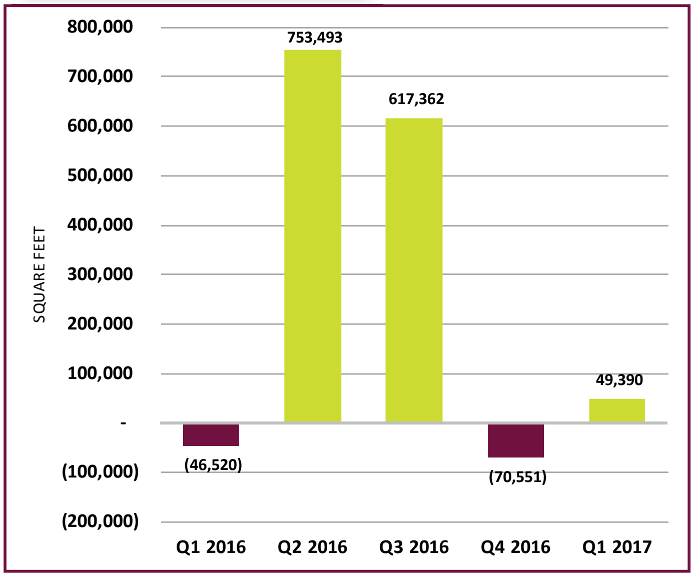


A LOOK AHEAD

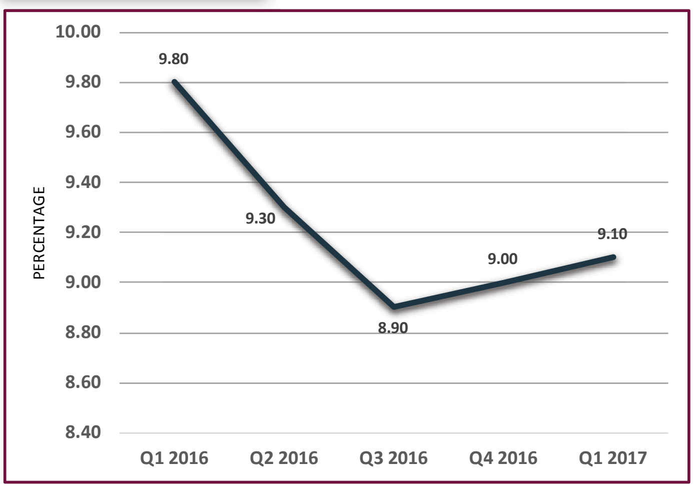
- Leasing activity should continue to exceed 1 million square feet per quarter with velocity fluctuating a bit as employers seek greater transparency in the economic outlook
- Vacancy rates will continue to decline, although at a slower pace than we saw in 2016
- The pace of increases for asking lease rates will slow to low single digits
- Construction is likely to be limited to renovations on existing properties
- Net absorption will maintain its current pace for the balance of the year

ORANGE COUNTY

NET SF ABSORPTION*



VACANCY RATE*



* buildings with a minimum of 30,000 square feet

TRENDING NOW

Demand returned to the overall Orange County office market in the first quarter and rents moved slightly higher. Countywide, the Q1 vacancy rate hovered just above 10 percent for the fourth consecutive quarter on 249,201 square feet of positive net absorption. Demand was greatest in Santa Ana, Tustin, Anaheim, Cypress and Irvine, where two buildings totaling 212,000 square feet came on the market. Cities with the most new vacancies were Costa Mesa, Foothill Ranch, Lake Forest, Mission Viejo and Orange.

While average rents are just shy of matching the overall market's pre-crash peak 10 years ago, in other ways the office market has more than fully recovered. Since the bottom, 40 new buildings, totaling more than 4.7 million square feet have been completed. Occupied space has increased 7.1 million square feet and is only 60,000 square feet from reaching the 100 million square feet mark. The market is healthy enough for a few developers to take some measured risks. Trammel Crow will complete 545,000 square feet of speculative office space at the airport this year with asking rents expected to top $4 per square feet. LBA is planning a six-story 180,000-square-foot building at Park Place on Jamboree Road. Also set to get underway this year is an 870,000-square-foot creative campus in Tustin by Lincoln Property and a 242,000-square-foot office project on Von Karman Avenue by Hines Interest L.P.

Asking lease rates increased in the last four quarters for Class A and Class B office space by 5% and 3.7%, respectively - gains that were half that of the previous four quarters. Among the popular features of creative space are low-rise buildings, highly designed common areas and higher parking ratios that are valued by employers. These projects have attracted a number of 10,000-sq.-ft. tenants, but few large tenants have materialized for the open floor plans of 40,000 square feet and up.

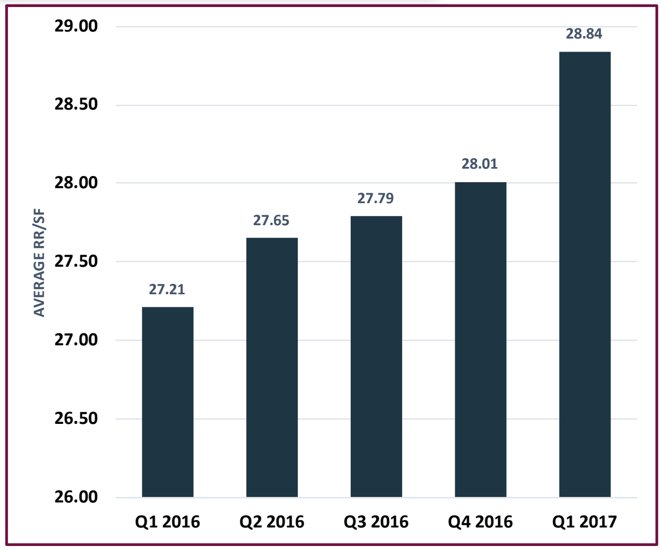
9.1%	$28.84	49,390	153,956,214	2,226,702
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▲	▲	▲	▲	▼

ORANGE COUNTY - TRENDING NOW (continued)

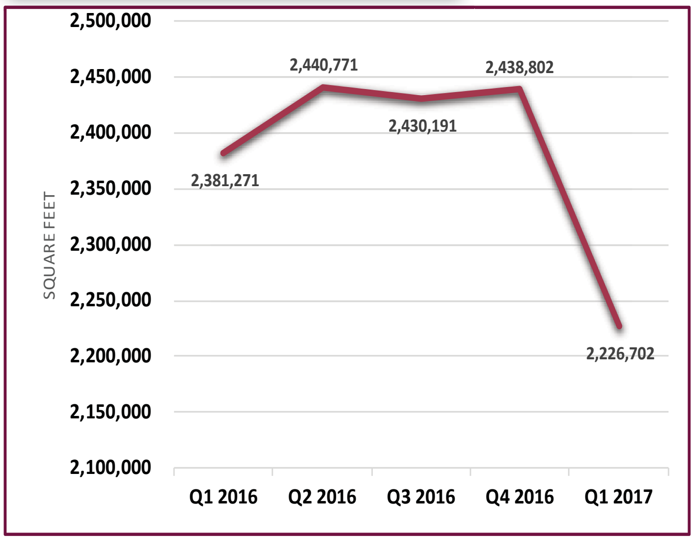
A notable exception to that fact is the 100,000-square-foot Q1 lease of creative space at The Hive in Costa Mesa by the Los Angeles Chargers football team. The team's ability to build a practice field on an adjacent 3.2-acre parcel cinched the deal. Also, late in the first quarter a unique office property appeared on the market - the 65,000-sq.-ft. campus of Trinity Broadcasting Network just off the 405 Freeway in Costa Mesa. Lee & Associates agents, who toured about 20 prospective buyers and tenants in two weeks, say the six-acre property is drawing strong interest for the building's low profile and nearly 6:1 parking.

Job growth has been steady and employment gains have come from a variety of service sector companies. Orange County's roster of office-using companies has diversified during this long economic recovery, and is now much less dependent on the mortgage industry than it was when the subprime mortgage market collapsed back in 2007. However, the Los Angeles Economic Development Council and now two Chapman University researchers, have issued reports warning that Orange County's prospects for growth are constrained by high housing costs and an over-reliance on the tourism and information services sectors.

AVERAGE SF RENTAL RATES*



SF UNDER CONSTRUCTION*



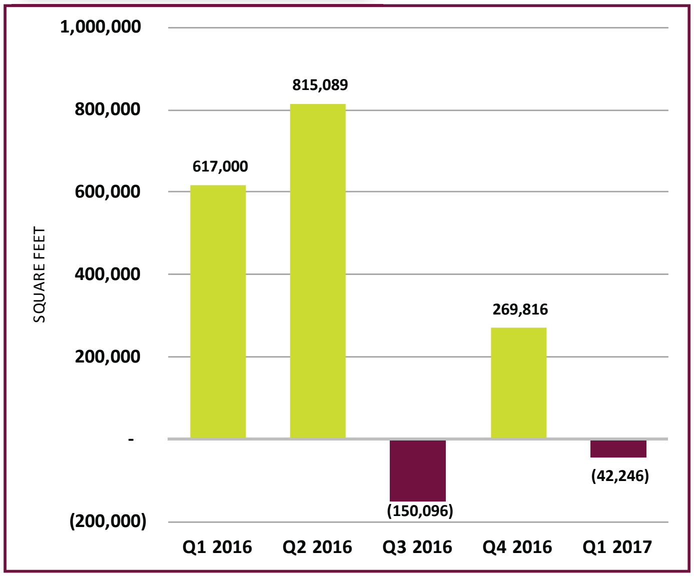
* buildings with a minimum of 30,000 square feet

A LOOK AHEAD

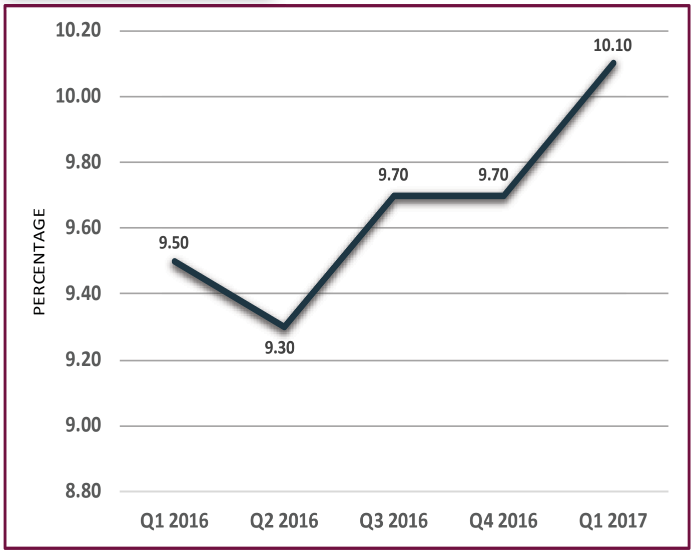
- Leasing activity should remain at current levels throughout the year
- Average asking rents will continue to move higher, as rents in new buildings top $4 per square foot per month
- Construction will be focused in the Greater Airport and Irvine Spectrum submarkets
- Vacancy will keep moving down slowly throughout the year
- Net absorption will stay in positive territory, but will be moderated by companies downsizing into more open space designs
- Sales prices for owner/user buildings, especially in the Irvine Spectrum, will spike again in 2017

DENVER

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

The Denver office properties market is still feeling the effects of the energy sector slowdown, and 2017's first quarter saw a further erosion of some key office market metrics. Upstream oil sector businesses in the Denver area have shed payroll and pared capital budgets in response to the price collapse that began in 2014. Now oil production is on the rise again due to several factors, including OPEC's recent agreement to limit output and a more optimistic view of global economic growth. While the price of oil held above $50-per-barrel in Q1, that falls short in terms of a sustainable rebound in the energy sector.

The fallout for Denver's office market has been undeniable. Net absorption levels have declined, the vacancy rate has drifted higher and overall rent growth has flattened out. The amount of space offered for sublease is also on the upswing, rising consistently over the past year to over 1.7 million square feet in Q1. Landlords marketing direct space are offering concessions and adding amenities to compete with sublease opportunities. On the bright side, growing businesses in other sectors are enjoying the soft market conditions.

Net absorption returned to negative territory in Q1, posting a net loss of 42,000 square feet after a net gain of 279,000 square feet in Q4 of 2016. Class A posted a loss of 502,000 square feet in Q1, while Class B added nearly 411,000 square feet to the total of occupied space. Variations in absorption by location is also telling. The CBD generated its 5th consecutive quarter of negative absorption, posting a Q1 loss of nearly 182,000 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 last year.

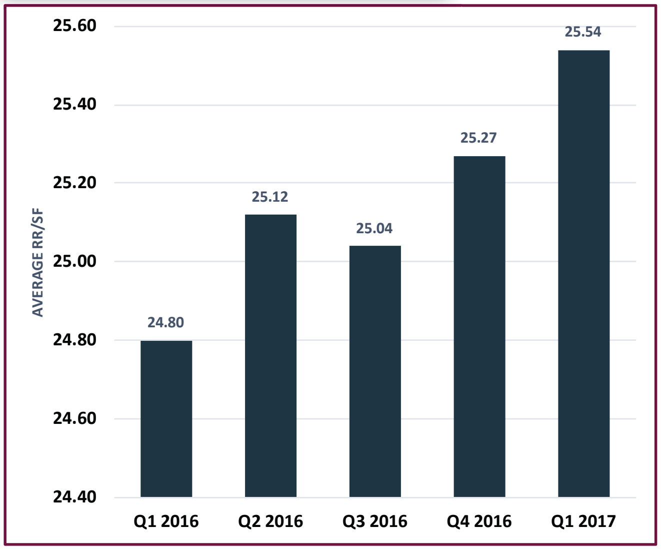
10.10%	$25.54	(42,246)	197,203,540	5,845,847
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

DENVER - TRENDING NOW (continued)

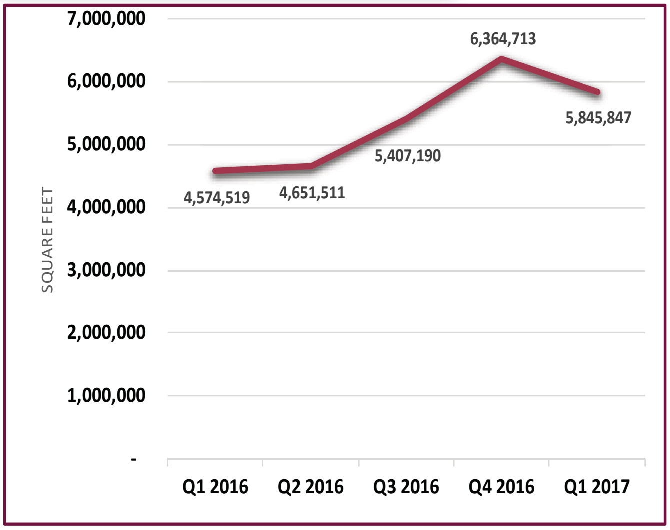
Average asking rental rate for all building classes was up by $.27 in Q1, to $25.54. On a year-over-year basis, rents grew by $.74 per square foot. Class A rents also moved slightly lower in Q1, falling $.09 to end the period at $29.43. That contributed to a year-over-year decline in the Class A rate of $.37. Class B rents have been steadily rising since 2012 and that trend continued in Q1, adding another $.37 to finish Q1 at $22.91, up $1.24 year-over-year.

Vacancy moved up another 40 basis points to 10.1% in Q1. Class A vacancy in the CBD was highest at 16.3%, up sharply in the period. The combined Class C market posted the lowest vacancy rate of just 4.1%. 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 an additional 883,000 square feet was delivered in Q1. Over 5.8 million square feet is still in the construction pipeline, raising concerns over a further rise in vacancy throughout 2017. The largest project under construction is the 670,000-square-foot building at 1144 15th St, which is now 35% preleased.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

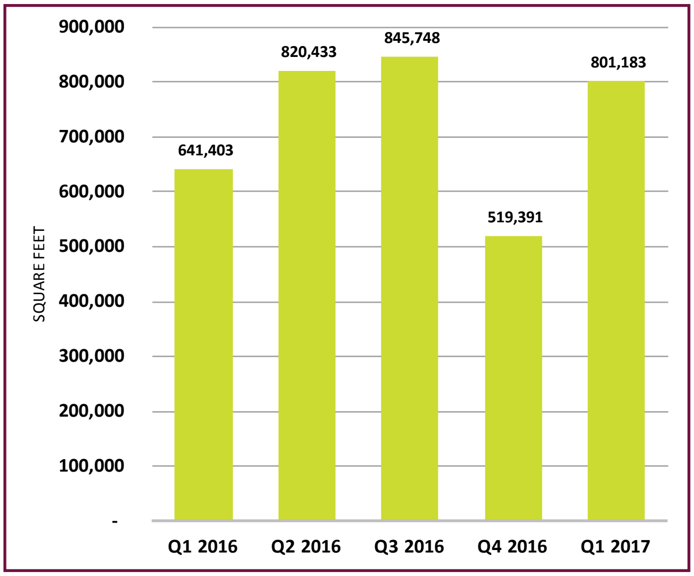


A LOOK AHEAD

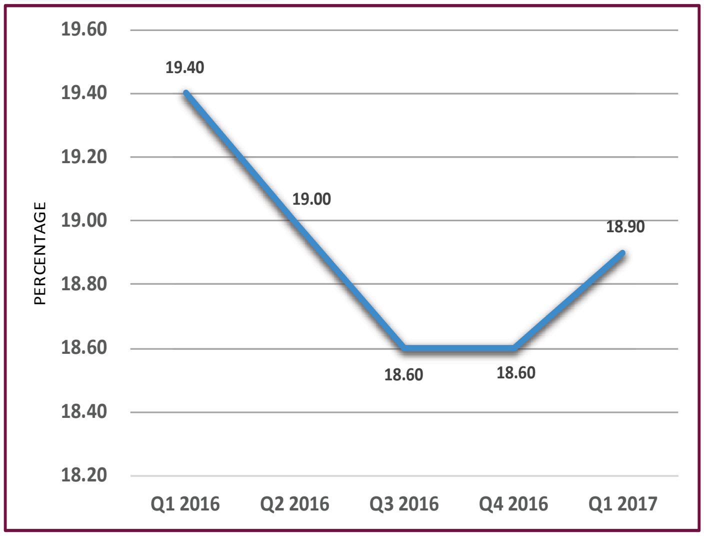
- Lease and sale activity will stay on current track for the balance of 2017
- Overall average asking rent growth is topping out
- Job creation in the tech and business services sectors will continue
- Construction starts will slow substantially in 2017, but will pick up in the RiNo submarket
- Vacancy will keep moving up throughout the year
- Net absorption will be spotty for the balance of the year, with Class A space hardest hit

PHOENIX

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Phoenix office market kicked off the new year with mixed results. Net absorption was up over Q4 2016, but there was a substantial amount of deliveries that precipitated a 30-basis point rise in the vacancy rate. Rental rates moved slightly higher and the trend is for rental rates to rise modestly through 2017. However, sublease space continued to grow as more tenants are choosing to downsize and increase space efficiency by changing workplace design. Although not at historical highs, the total amount of subleases has inched up each quarter since the final quarter of 2012.

Space consolidation by major companies is another noteworthy factor in the office landscape. Firms such as State Farm, Wells Fargo, American Express and JP Morgan Chase are opting to develop suburban office campuses, which has caused leased space scattered in dozens of buildings around town, to be vacated in favor of new massive built-to-suit projects. JP Morgan Chase just announced plans to develop 67 acres at Discovery Business Park in Tempe and will move some jobs away from its corporate offices in Downtown Phoenix and elsewhere around the Valley. These gleaming projects act as high-visibility beacons to lure workers to these modern campuses and away from limited-use, traditional office space.

The Phoenix office sector posted a vacancy rate of 18.9%, 30-basis points higher than last quarter due to an increased level of vacant spec deliveries to inventory. Deliveries for the quarter totaled 1,412,462 square feet with the most activity in Tempe. Construction activity this quarter was down considerably due to last quarter's completions. A total of 1,018,761 square feet is currently being constructed across the Valley.

18.9%	$24.67	801,183	87,196,435	1,018,761
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

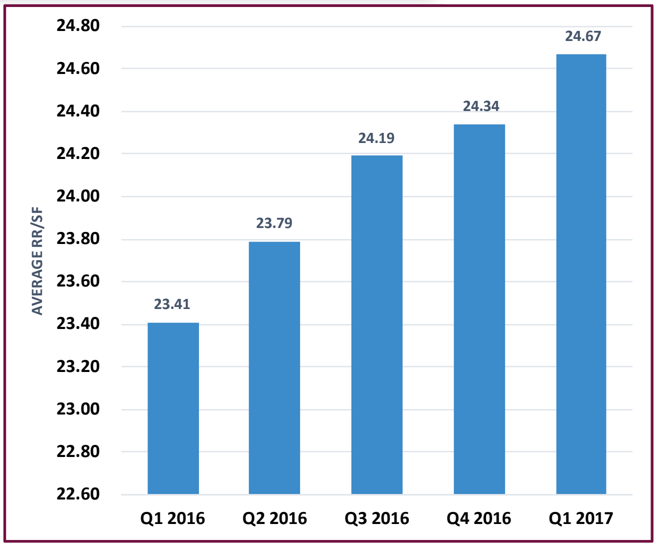
PHOENIX - TRENDING NOW (continued)

Absorption for the quarter increased over Q4 2016 to 801,183 square feet, with most activity in Tempe, Deer Valley and Chandler submarkets. Aside from these stronger submarkets, absorption was negative in eleven submarkets compared to just eight last quarter. While net absorption varies widely by submarket, it is important to note that gains in occupied space have been consistently in positive territory since 2010.

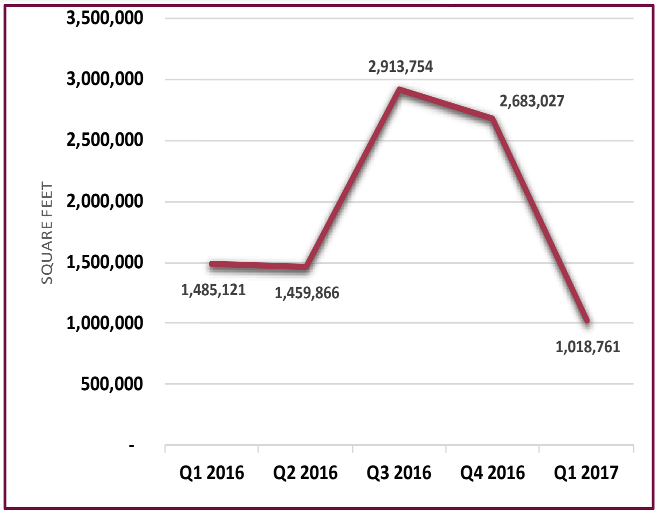
Leasing activity was down this quarter with fewer leases and less space taken. However, gross absorption was strong, asking rental rates increased overall by 1.4% in Q1 to $24.67, full-service. Downtown Phoenix, Camelback Corridor, Tempe and Central Scottsdale have the highest asking rates among submarkets.

In the largest lease transaction for the quarter, Wells Fargo took 115,394 square feet at Continuum Business & Tech Park, 2501 S. Price Rd., increasing its already substantial presence in Chandler. In the largest sales transaction for Q1, Lincoln Property purchased a 104,531-square-foot property at 2777 E. Camelback Rd., Phoenix for $24,500,000. Price per square foot was posted at $234.95.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

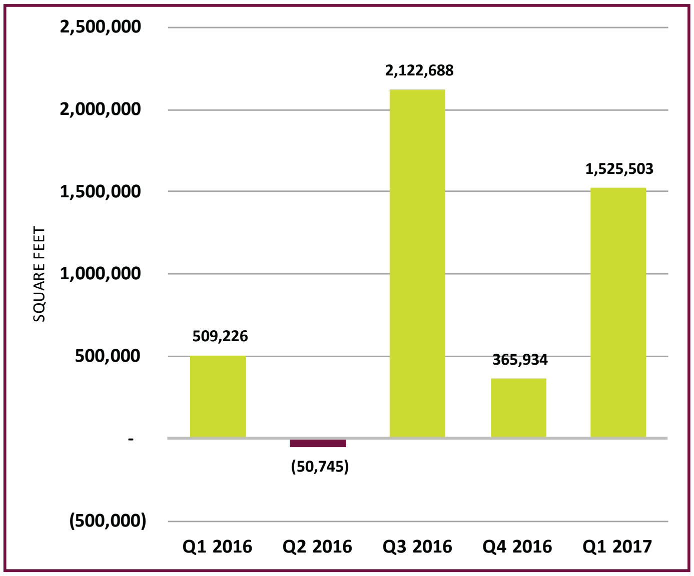


A LOOK AHEAD

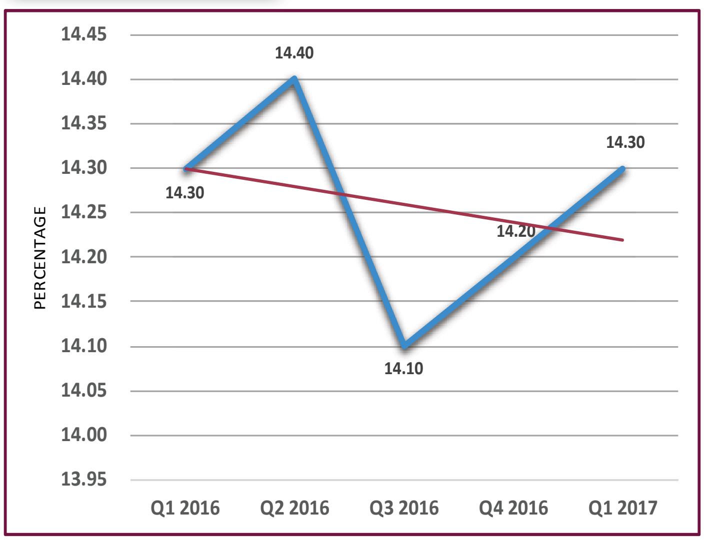
- Pace of leasing activity should remain at modest pace in 2017
- Net absorption should stay on current track
- Tech companies will continue their move to the Valley with creative space needs in tow
- Spec construction will slow going forward, but build-to-suit activity will keep pace with 2016
- Vacancy should decline by 20 to 30-basis points per quarter in 2017

DALLAS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Dallas/Fort Worth (DFW) population is growing at a current rate of 360 people per day, and the regional economy has been expanding rapidly for the past several years. DFW outperforms most other metro areas, especially those that are restricted by a lack of available land for office development, a shortage of affordable and regulatory constraints. Many of the region's new residents have the education and skills that expanding companies are looking for. That is why large corporate users like Toyota, Boeing, Liberty Mutual and JP Morgan Chase have chosen the area for major expansion moves. That endorsement creates a sense of confidence in the market that continues to attract other major players to the region. Add the central location and pro-business attitude of the State of Texas, and it's no surprise that the Dallas/Fort Worth area has so much momentum.

Despite such prolific growth, landlords and investors are raising concerns over the high volume of new deliveries to the market, and the potential impact of overbuilding. Deliveries were way up in Q1, with over 2.3 million square feet of new product, which is nearly triple the deliveries in the previous quarter. That brought the total base inventory of office space up to 362.9 million square feet. Another 11.9 million square feet is in the construction queue, and some believe that poses a threat to further rent growth down the road.

For the time being, average asking rents are still moving up. In Q1, the overall average rate rose another 1.6% to end the period at $24.52. All building classes reported healthy gains for the quarter, which was good news

14.3%	$24.52	1,525,503	362,873,968	11,897,055
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

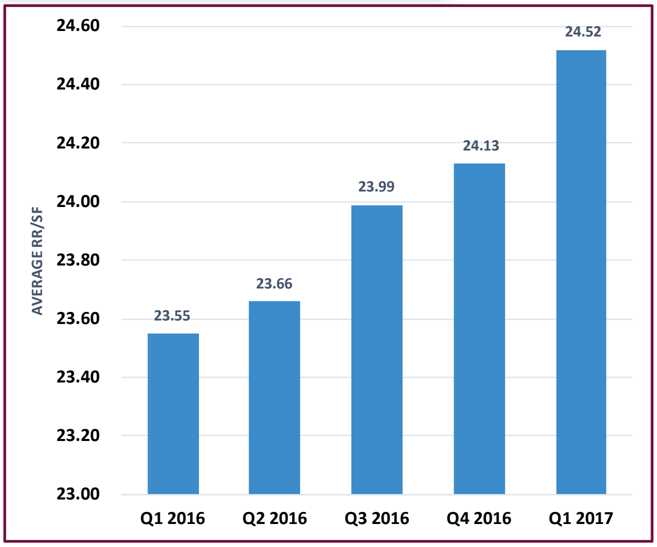
DALLAS - TRENDING NOW (continued)

to concerned building owners. Class A asking rates moved up by $.34 to $28.12, while Class B rates rose by $.39 to end the period at $21.00.

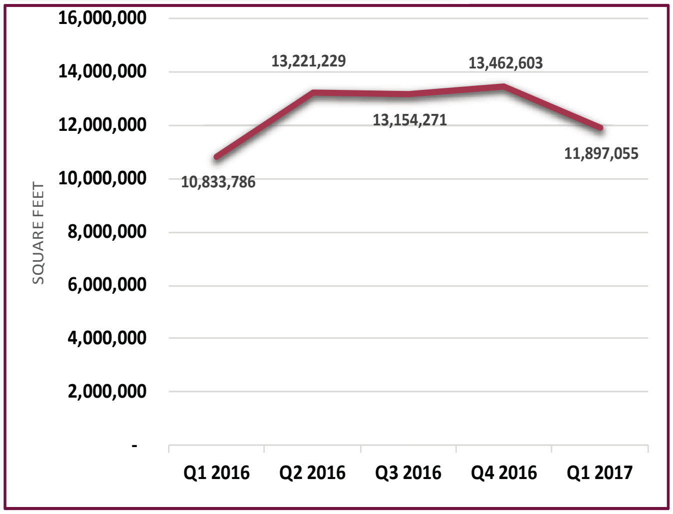
Net absorption hit 881,552 square feet in Q1, more than double the Q4 total, but substantially less than the 2,122,000 square foot gain back in Q3 of 2016. By building type, Class A had a net gain in occupied space of 1.2 million square feet, but Class B recorded a net loss of nearly 163,000 square feet. By area, it is still the suburban submarkets, where the biggest corporations are locating, that are seeing the biggest net absorption gains. In Q1, almost 982,000 square feet of net absorption was recorded, while the CBD posted its fourth consecutive quarter of negative net absorption with a 100,000-square-foot decline. As we have previously reported, Class B space continues to benefit from the "herd effect," whereby smaller employers who service big corporations locate near their biggest customers.

With such high levels of new deliveries and just moderate net absorption over the last two quarters, vacancy has drifted up. The first quarter ended with a vacancy rate of 14.3%, up 10 basis points for the period after also moving 20 basis points higher in Q4 of last year. Both Class A and B product have recorded similar increases over the past two quarters. Looking at it from location perspective, the new is the same. Both Suburban and CBD vacancy posted similar results, which is further cause for concern for landlords as they look ahead.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

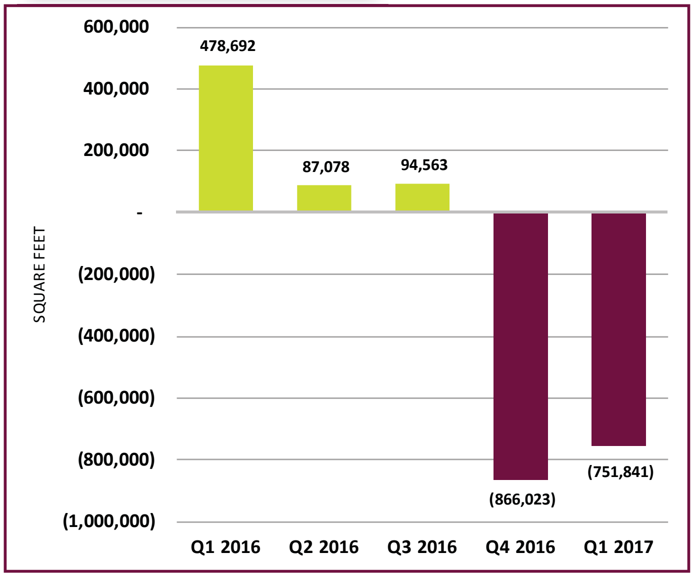


A LOOK AHEAD

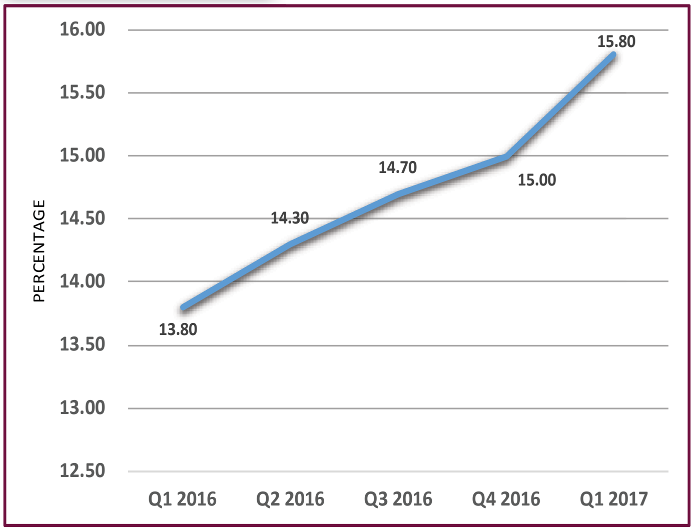
- Leasing activity will remain near current pace, but concerns over excess deliveries are on the rise
- Net absorption will remain in positive territory, but may moderate over the balance of the year
- Vacancy will move up or down slightly based on the timing of spec deliveries
- Landlords and tenants will dig in on length of lease terms, as both hedge for a correction
- Average asking lease rates will continue to move up as landlords push hard to secure tenants before new deliveries reduce their competitive position
- Construction levels will decline to absorb current level of new deliveries

HOUSTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Oil drilling operators have increased rig count and domestic oil production is back on the rise, but price levels are still hovering in the $50/bbl range, which is not enough to repair the economic damage caused by the precipitous decline in oil prices that began back in 2014. Domestic producers jumped at the chance to offset actual and proposed output cuts by the OPEC cartel and other big producers. However, supply remains plentiful and slow global growth has done little to increase worldwide oil consumption. Old talk of "peak oil" has been replaced by concerns over the potential of "peak demand."

The other side of the energy equation is the benefit of lower prices to downstream users of oil by-products, who have seized the opportunity to invest in new facilities, which is creating new jobs and related economic activity. The healthcare sector has also stepped in to do much of the heavy lifting for the local economy. Houston boasts one of the largest concentration of hospitals in the world, many of which are investing in additional infrastructure to expand cancer research and treatment facilities that also help to attract large pharmaceutical companies to the region.

Rising vacancy is still a problem. In Q1, the overall vacancy rate across all building classes continued to move up, ending the quarter up 80 basis points to 15.8%. In the past four quarters, the vacancy rate is up 150 basis points. Many believe that vacancy will peak in 2017, as big energy companies complete their consolidation strategies. For the last two and a half years leasing demand from non-energy tenants has not kept up with rapidly expanding supply. Vacancy will continue to vary widely by submarket, especially in those where 10% of the tenants, many of them in the energy sector, control 90% of the space.

15.8%	$27.56	(751,841)	305,337,297	2,288,834
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

HOUSTON - TRENDING NOW (continued)

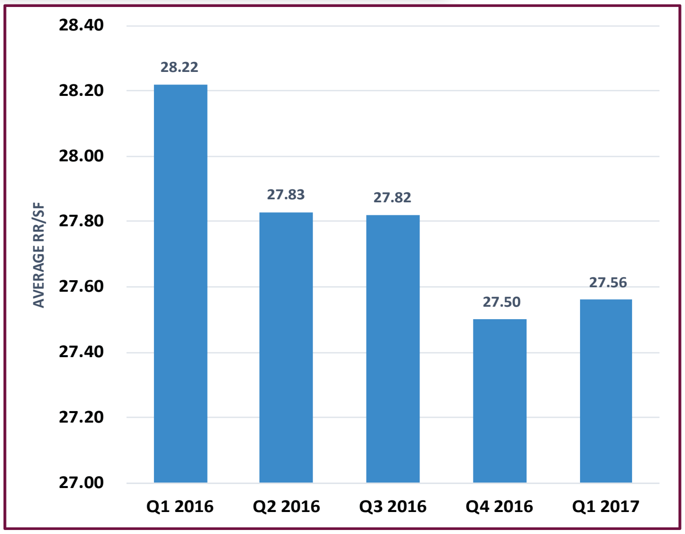
The high level of quality sublease space remains problematic, as the energy giants like Shell, Chevron and Freeport McMoran and others continue to reduce their office space footprints to trim occupancy costs. Sublease availability is predominantly in Class A buildings and sublease transactions now account for a nearly a third of all leasing activity. Also, the completion of 609 Main in the CBD added to the problem, as 51% of the 1,056,000-square-foot Class A building is vacant and available.

The overall average asking rental rate actually ticked up slightly to start the year, increasing by $.06 to end Q1 at $21.56. However, in the past four quarters, that rate has slipped by $.66, which was not unexpected given current market dynamics. The rate for Class A rate fell by $.11 to $33.14, but Class B fared better, falling just $.07 to $21.54. Rates in the CBD now average $40.52, compared to $25.45 in suburban areas. Effective rates will be lower due to high levels of free rent and other concessions.

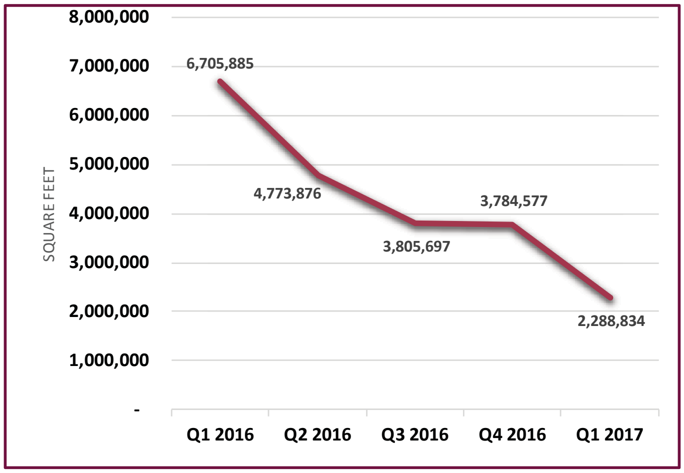
Net absorption remained negative in Q1, as occupancy declined by 751,841 square feet following an occupancy loss of 866,023 square feet in the final quarter of 2016. In the past four quarters a total decline in occupied space of over 1.4 million square feet has been recorded. So, tenants maintain the upper hand and many are taking more time to make decisions, demanding shorter leases, more expensive build-outs. It is a good time to be a tenant willing to sign a long term lease.

Fortunately, the amount of space in the construction pipeline is slowing down. Currently, there is approximately 2.3 million square feet in the construction queue, down from 4 million square feet in Q4. Over 1.9 million square feet of office space was delivered in the first quarter.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

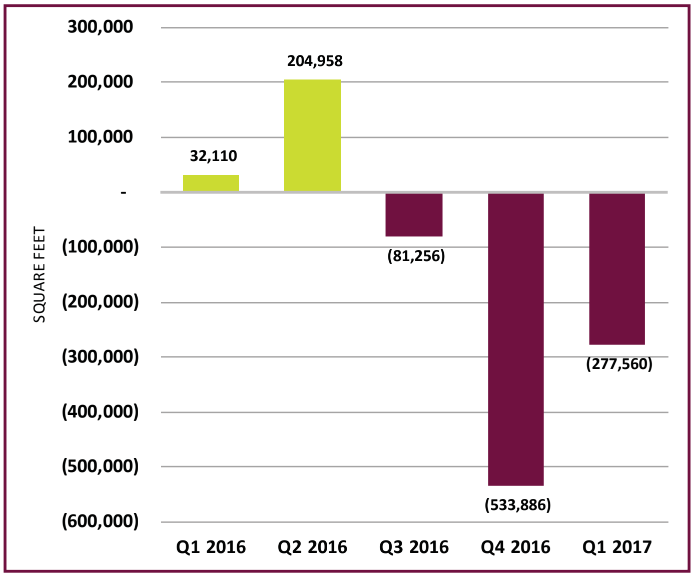


A LOOK AHEAD

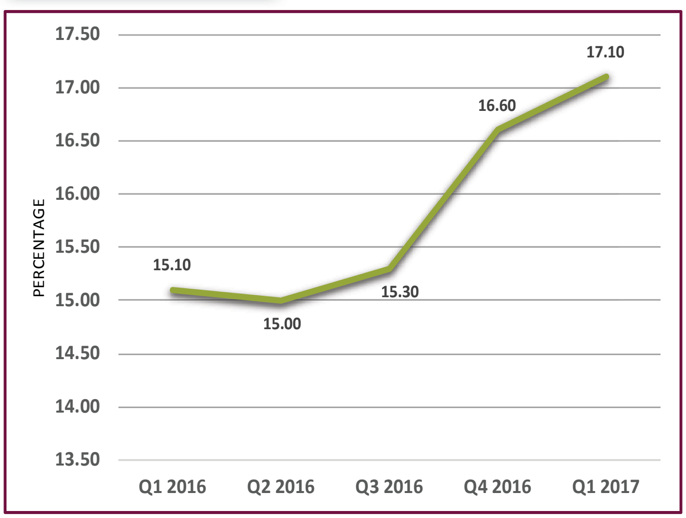
- Net absorption should move out of negative territory as new deliveries decline
- Vacancy should peak by the end of the year as new deliveries slow
- Developers of planned projects will wait out the excess supply in the construction queue
- Leasing activity will remain sluggish for the next 12 to 24 months
- Effective rental rates will move lower throughout the year as tenants pressure landlords on concessions
- Investors will remain very cautious which will keep cap rates from compressing as they have in other major metro markets

TWIN CITIES

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Greater Minneapolis-St Paul MSA (MSP) has one of the highest concentrations of major corporate headquarters in the US. The region is home to 17 Fortune 500 companies including 3M, United Health Group, Target, Medtronic and General Mills. A highly educated labor force of over 1.8 million supports these industry leaders and the thousands of office-using businesses operating in the region. MSP also boasts the highest labor participation rate of the 30 largest metro areas in the country and over 40% of residents have college level degrees. Employment sectors significantly impacting the office property market include professional and business services, financial services, information and healthcare. Over the past year, 7,700 of the nearly 28,000 jobs created in the region, were office-related.

Despite the general healthy regional economy, office leasing activity has been sluggish in recent quarters, and some experts believe the market may have reached a peak. The vacancy rate remains high relative to other major metro areas around the country. As Q1 ended, the overall vacancy rate for the MSP region, was 17.1%, which is 230 basis points higher than it was a year ago. That increase runs counter to the national vacancy rate, which has been posting modest but steady declines over the last several years. At the end of the quarter, the US vacancy rate for all building classes was just 9.7%. Several major relocations within the area have left their mark on office vacancy, including Wells Fargo's phased move out of 800,000 square feet occasioned by their relocation to the CBD. In Q1, the Normandale Towers experienced 158,000 square feet of new vacancy after the loss of more than half a dozen tenants.

17.10%	$25.07	(277,560)	80,156,559	1,506,461
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

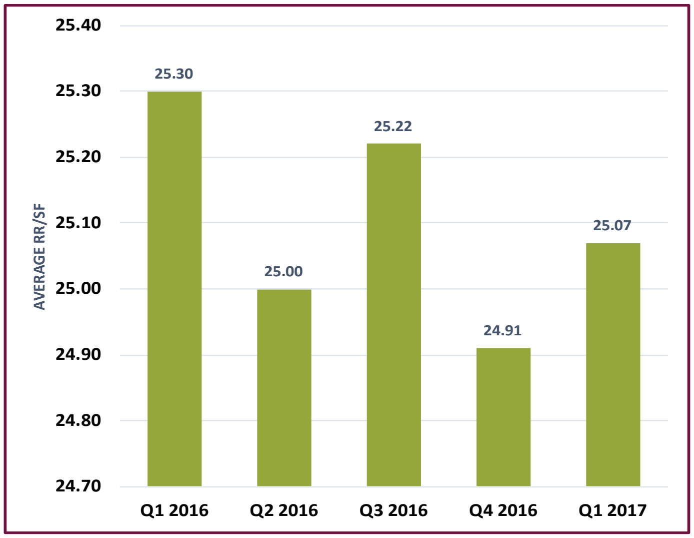
TWIN CITIES - TRENDING NOW (continued)

Net absorption has been weakening, as well. Q1 growth in occupied space was negative for the third straight quarter. The quarter's loss of 277,000 square feet followed an occupancy decline of over 500,000 square feet in Q4 of 2016 and a loss of more than 250,000 square feet back in Q3. Class A in the Southwest market accounted for more than half of the most recent decline. Leases contributing to new occupancy in Q1 included Cray's 89,481-square-foot space at the Offices @ MOA, Van Wagenen's 46,946-square-foot lease at the Superior Office Center and three new leases at the 5th Street Towers totaling 46,778 square feet.

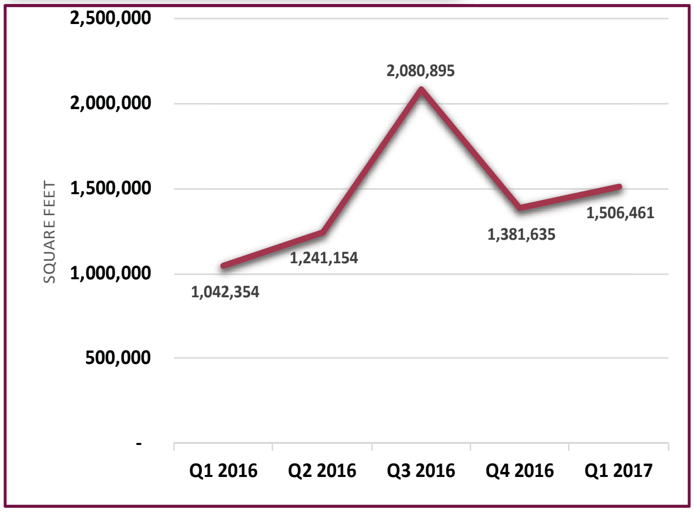
Average asking rental rates have stabilized in the $25 range over the past year. The rate for direct space has moved $.23 lower since the first quarter of 2016, ending the Q1 of 2017 at $25.07. However, that was $.29 higher than the average rate in the final quarter of 2016. Though it is important to note that rates for the region's top tier of Class A properties run well above the average, as demand for the highest quality space remains strong. Some tenants are reducing their space footprints when relocating by changing workspace designs that allow for higher employee density.

There is an ongoing suburban-to-urban shift in the office property market, as walkable amenities have become a higher priority for expanding tenants. These employers are responding to the preferences of the younger workers they need to attract and retain to increase profitability. The 44,000-square-foot move to the CBD from the Southwest by Weber Chandwick is a good example. Property owners, looking to backfill hard to lease spaces, are responding to the trend by investing in shared building amenities. The migration to urban locales is benefitting owners of Class A and Class B properties.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

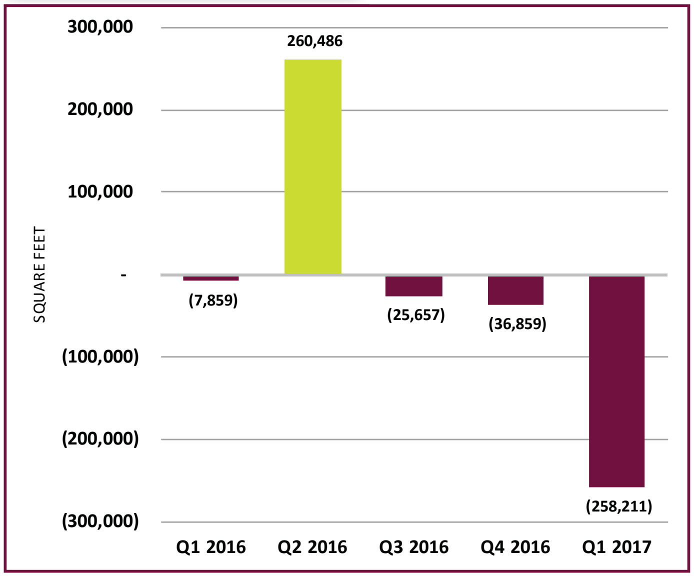


A LOOK AHEAD

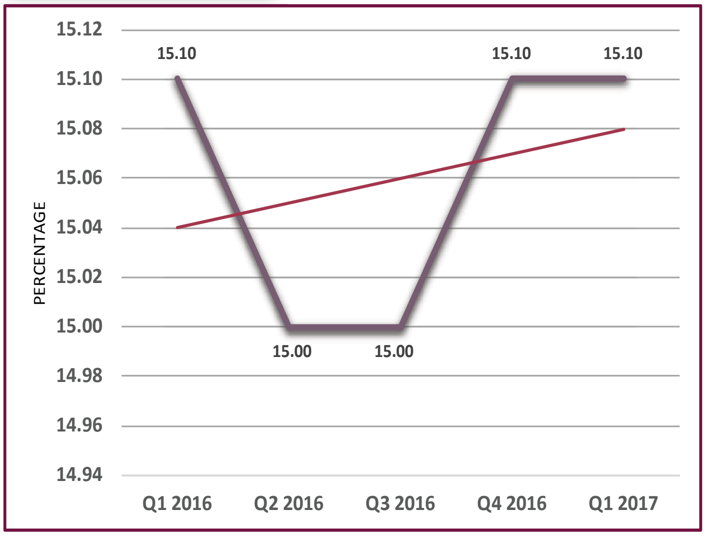
- Look for more investor activity from California buyers looking for higher yields in the Twin Cities
- Tenants will be signing longer leases with flexible workspace designs to accommodate changing space needs without moving
- Overall leasing activity and net absorption will be flat in 2017
- Average asking lease rates will plateau or record slight declines by the end of the year
- Land prices may decrease slightly, as development activity remains tepid
- New office projects will require substantial preleasing to secure financing

ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Georgia is a "right to work" state and Atlanta is a business friendly city, and that combination has led to prolific job growth in recent years. The Atlanta metro area added 63,000 jobs in 2016, two thirds of all the job gains in Georgia. Growing companies that need to recruit and retain younger workers who prefer an urban lifestyle, choose Atlanta because of its burgeoning live/work/play environment. To mitigate rising rents and appeal to millennial workers, tenants are reducing their space footprints and adapting to new workspace designs to increase the number of employees for each square foot of space leased. A recent 18,000-square foot office lease for a technology company, negotiated by the Lee Corporate Solutions Team, was designed to accommodate up to 10 employees for every 1,000 square feet of space. To accomplish that goal, the workplace was designed to be activity based with a concentration on wellness and collaboration.

Tenant improvement costs are also on the rise throughout the region and landlords are pushing rents higher in response. Class A rents have moved up by 18% since the start of the office recovery that began back in 2012. Rents for premium buildings in prime submarkets have increased by as much as 30% in that same time. In many instances, tenants are being asked to invest up front to complete their buildout on top of paying premium rents.

Quoted lease rates for all building classes combined moved up $.10 in Q1 to $23.40. Class A rates rose by $.16 to $27.15 for the period and $1.35 higher year-over-year. Tenants will still pay a premium for Class A properties in Buckhead, Central Perimeter and

15.1%	$23.40	(258,211)	209,892,628	5,242,106
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

ATLANTA - TRENDING NOW (continued)

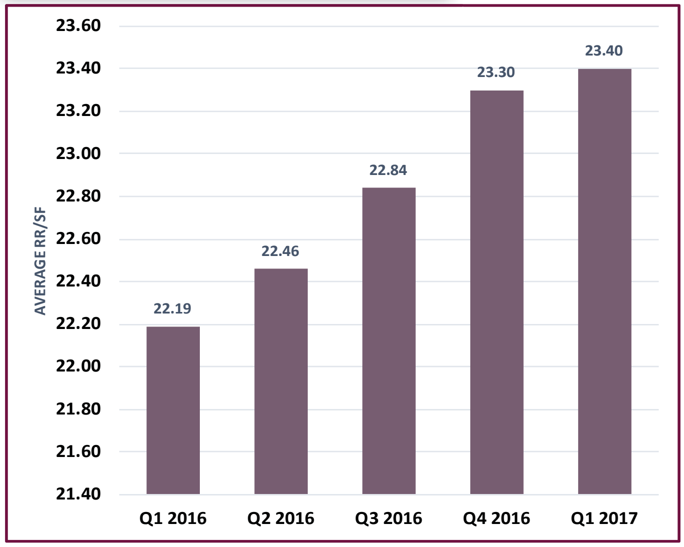
Midtown submarkets, but availability in those areas is tight. The Class B asking rental rate also rose by $.10 in Q1 to $18.88. Just a year ago, that rate stood at just $18.09.

Despite rising rents, Atlanta's office market posted a net loss in occupied space of 258,211 square feet in Q1 even though gross absorption hit 2.9 million square feet. There were several large move-outs in the period including Coca-Cola (322,000 square feet), Farmers Insurance (139,000 square feet) and State Farm (134,000 square feet). In terms of building type, Class A posted a significant net loss of over 494,000 square feet in Q1, while Class B recorded a net gain of over 303,000 square feet.

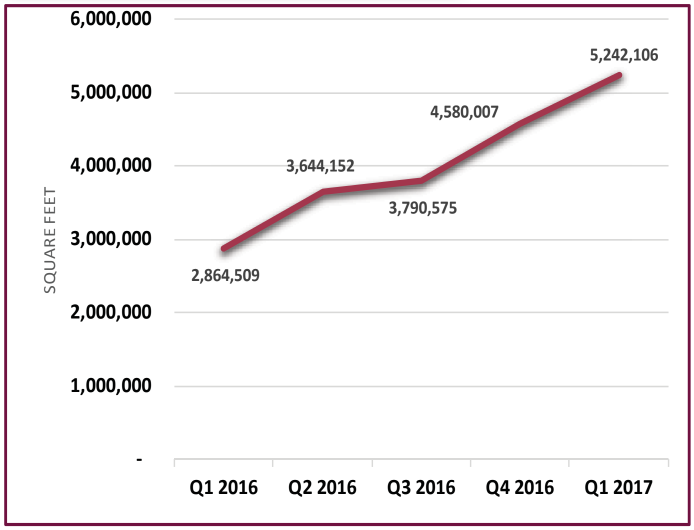
The vacancy rate was unchanged for the period and year-over-year at 15.1%, but Class A vacancy moved up 30 basis points to 14.8%. However, the Class B vacancy rate fell by 40 basis points, ending the quarter at 16.2%. Even though vacancy is higher than in some other major metro areas, developers are busy building new projects. Deliveries for Q1 were light at just 130,000 square feet, but over 5.2 million square feet of space was under construction as the quarter ended, nearly double the total in Q1 of 2016. Big projects under way include Coda, a 760,000-square-foot building that is 61% preleased, and Three Alliance Center, a 506,000-square-foot facility that is 48% preleased.

Several large community construction projects will be completed in 2017, including new stadiums for the Braves and Falcons, along with new homes for Mercedes Benz, NCR and the first phase of State Farm's Perimeter Center Campus. But, even after those projects are delivered, multi-family and office deliveries will continue to keep the construction industry running at capacity.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

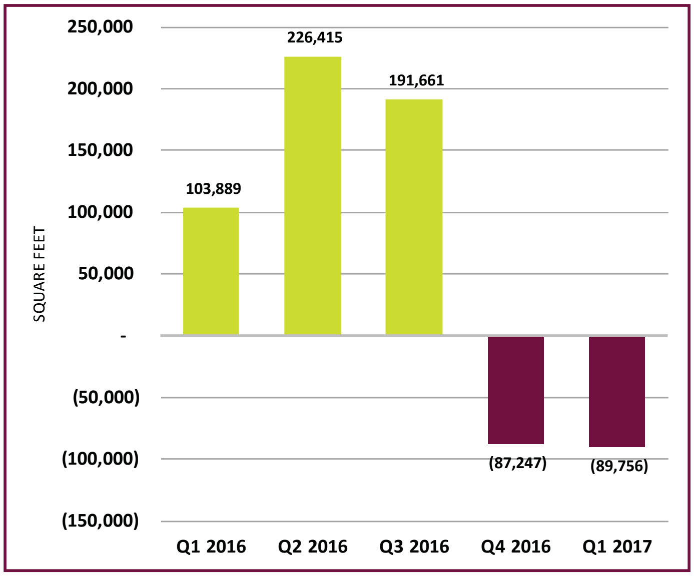


A LOOK AHEAD

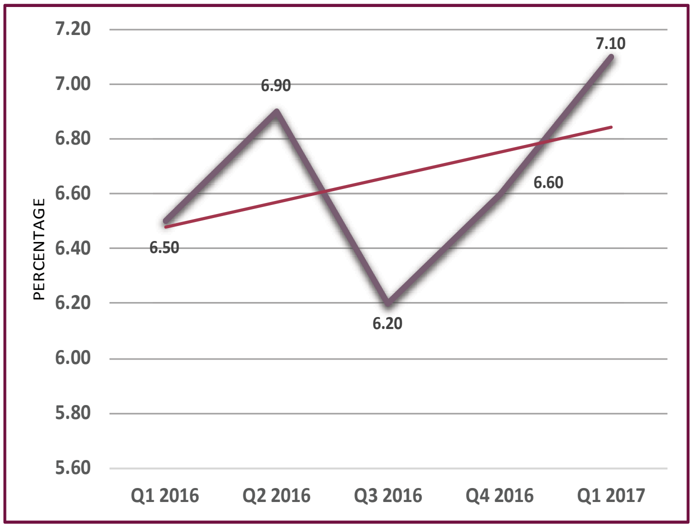
- Rent growth will slow to 2%-3% in 2017
- Net absorption could slow during the year due to an increase in lease renewals and downsizing
- Vacancy will range from 13% to 14% for the balance of the year
- Leasing activity should remain steady in 2017
- Another 1.5 to 2 million square feet of new inventory will be delivered by the end of 2017
- Sales prices will moderate due to increased activity in suburban office sales and a decrease in trophy office salesr

CHARLESTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

It seems 2017 stands to be another year of strong economic growth for Charleston's regional economy. Last year, 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 Travel and Leisure Magazine readers voted Charleston No. 1 in its "Best City in the World" survey.

Charleston's economy is leading the Southeast in job creation, and the area is experiencing strong and consistent population growth. On average, 48 people move to the area each day. The City of Charleston continues to attract employers through aggressive economic development efforts. The new Volvo manufacturing facility, currently under construction, has already added momentum to local business growth, including office-using businesses. That, combined with the South Carolina Ports Authority's new terminal, larger cranes and harbor deepening efforts, will reinforce the Port of Charleston's stature as the most productive port in North America.

The supply of quality office space for lease continued to tighten in the first quarter. Rents keep moving higher, especially for first generation space. With businesses still in growth mode, the need for new office development has become more apparent, but even with rates on the rise, they may not be moving up fast enough to keep up with rising construction costs. Thus, speculative construction will continue to lag current demand for top quality space.

Sporadic deliveries and healthy leasing demand have combined to keep the overall vacancy rate under 7.6% since 2013. However, Q1 marked the second consecutive

7.1%	$21.31	(89,756)	28,267,258	620,359
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

CHARLESTON - TRENDING NOW (continued)

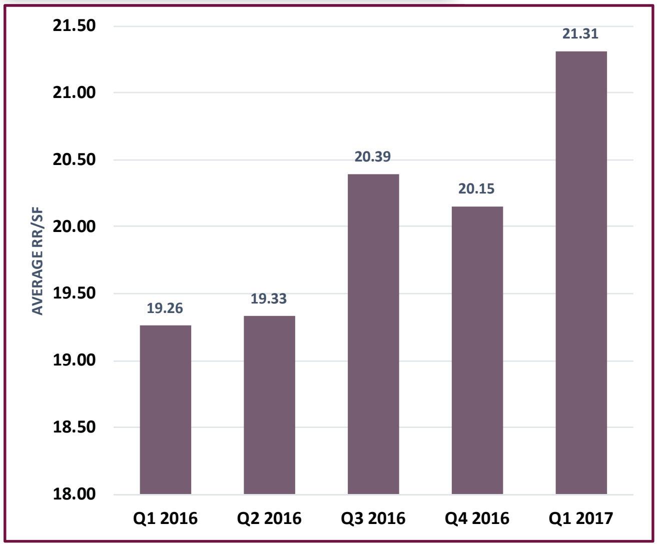
period of rising vacancy, ending the quarter at 7.1%. With its relatively small total inventory of 28.26 million square feet, quarterly variations of 40 basis points or more are not uncommon. Class B space, which is currently 8.9% vacant, makes up the bulk of Charleston's inventory at nearly 15 million square feet. Class A inventory totals 5.6 million square feet, 8.8% of which was unoccupied as Q1 ended. Just 2.3% of the 7.75 million square feet of Class C space stands vacant.

In Q1, another 57,000 square feet of new space was delivered in the first period, more than in the previous two quarters. Most new product is preleased, which forces most expanding tenants into second generation buildings. Another 620,000 square feet remains in the construction queue but, as we reported last quarter, the two largest buildings under construction, the 172,000-square-foot Blackbaud campus and the 90,270-square-foot building Town Hall project, are 100% preleased.

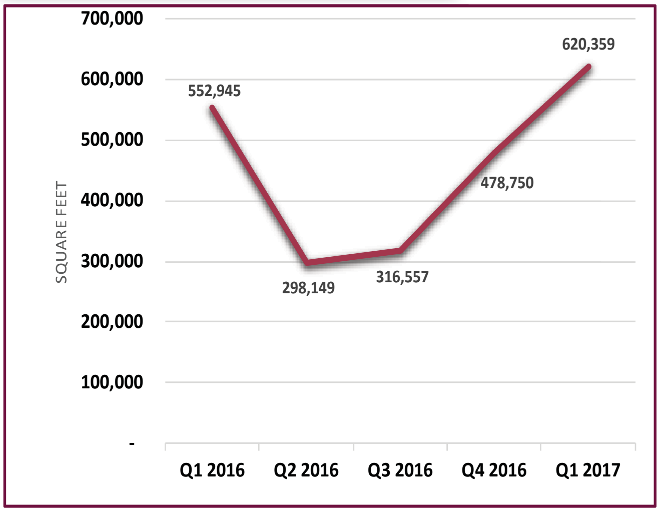
The average asking rental rate moved sharply higher in Q1, rising by $1.16 to end the quarter at $21.31. Of late, significant fluctuations in asking rates are as common as big variations in the vacancy rate. In Q1, both Class A and Class B buildings saw big gains, $.78 and $1.04, respectively.

Net absorption was negative for the second consecutive quarter, but has been otherwise running solidly in positive territory since 2010. In Q1, it was Class A that accounted for the deficit, versus Class B in the previous period. Absorption declined by 89,756 square feet in Q1 and 87,247 in Q4 of 2016, but still increased by 241,000 square feet in the past year.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

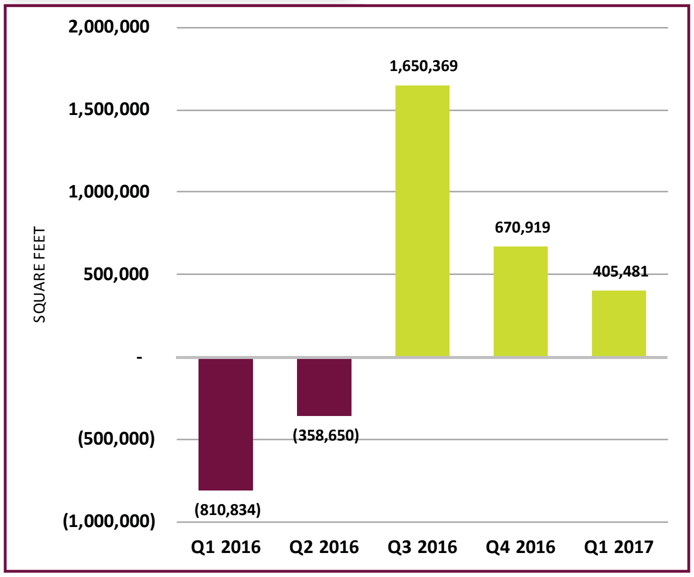


A LOOK AHEAD

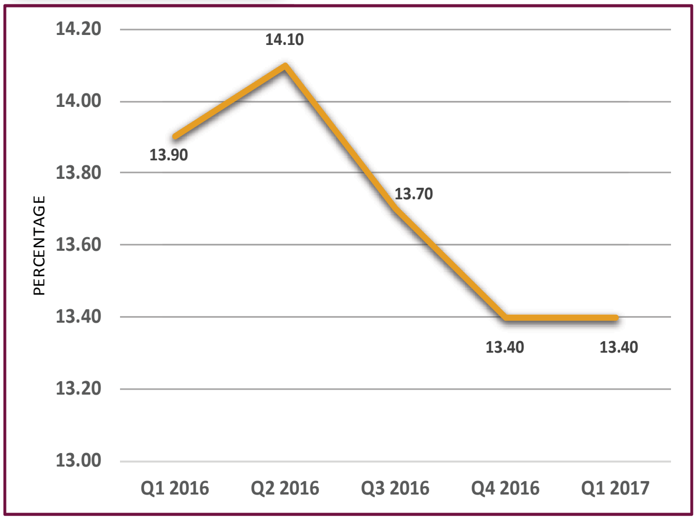
- Leasing activity and net absorption will be further restricted by lack of inventory
- Vacancy will stay in its current range throughout the year
- The new Volvo plant will be felt region-wide
- Rent growth will accelerate due to much higher rates for first generation product
- Sale activity will increase, in part due to lack of lease inventory
- Construction activity will rise in 2017

NORTHERN NEW JERSEY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Northern New Jersey's office market continues to make slow, but steady progress to return to market balance. As the result of the last recession, the region lost many big corporate office users who left behind large blocks of functionally obsolete space in suburban submarkets. Job growth in the office-using sectors has been lackluster and its gains in employment that drive the all-important net absorption numbers. As a result, rent growth has been sluggish and vacancy has remained relatively high. While the state's unemployment rate is just 4.4%, job growth has been stronger for users of other commercial property types.

The State of New Jersey has stepped in to provide economic incentives to retain existing and attract new businesses to the state, but changing workplace strategies and workforce demographics are drawing tenants to more amenity-rich areas, with or without tax incentives, to attract and retain the people they need to grow their businesses. The region does benefit from its proximity to the more expensive New York City market, which is prompting cost conscious tenants to take a more serious look at locating in New Jersey.

In Q1, the overall average asking rental rate moved $.27 higher to $25.11. Class A rents increased by $.15 to $28.76 and the Class B rate rose by $.10 to $21.96. Landlords are facing increasing pressure from tenants, especially in more expensive submarkets, to renovate older buildings and offer full TI packages. However, some older buildings with high vacancy, but near transportation hubs, are being repurposed to multi-family units to take advantage of rising rents and high demand for rental housing. Tenants in the upper Class A product tier are willing to pay a premium for amenity-rich locations, especially along the Gold Coast and in properties close to public transport. Rents for those properties are at or near the previous market peak, and

13.4%	$25.11	405,481	363,526,845	2,306,562
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

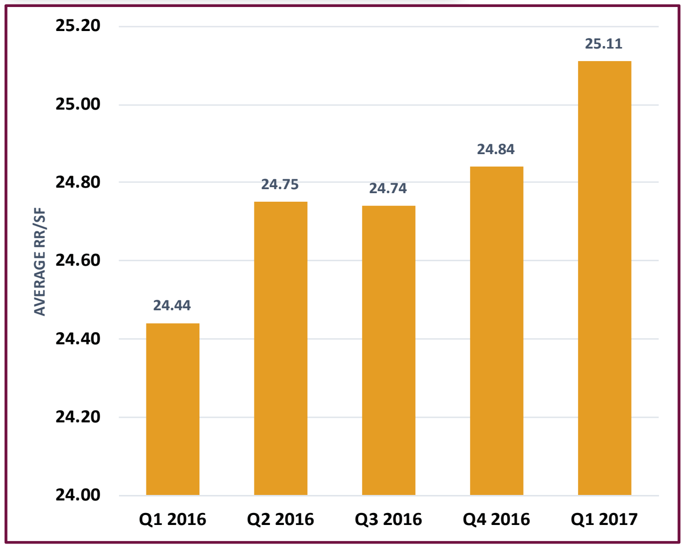
NORTHERN NEW JERSEY - TRENDING NOW (continued)

should continue to narrow the gap to New York City rent levels. In some locations, rents are reaching above $40 per-square-foot, particularly in buildings that have recently been upgraded and modernized. Even in high vacancy markets like Morris County, tenants will pay more for properties that have been substantially remodeled.

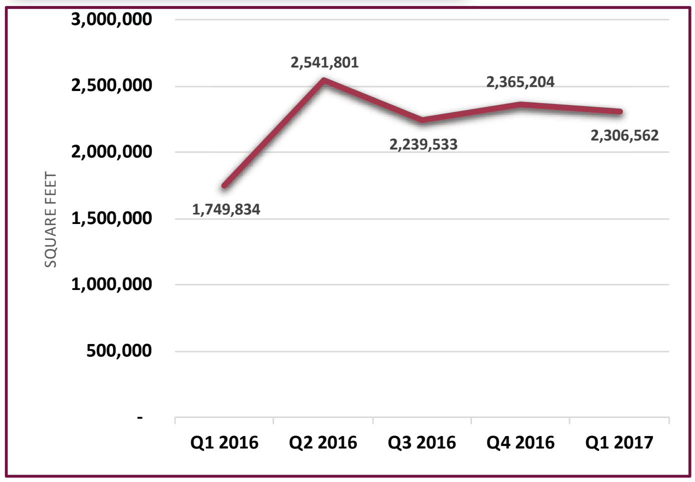
Space allocation per employee continues to move lower, thereby reducing the size of the office footprint for cost-conscious tenants. Many companies are experimenting with allowing more of their employees to work from home or other remote locations, along with adopting more open workplace designs that allow workers to share space. The increase in the use of part time employees also figures into the equation, as open design space is better suited to fluctuations in the workforce.

Net growth in occupied space exceeded 405,000 square feet in Q1, bringing total net absorption in the past year to over 2,368,000 square feet. Overall vacancy was unchanged in the first quarter at 13.4%, but down 50 basis points on a year-over-year basis. Interestingly, the vacancy rate is actually 10 basis points higher than it was back in 2010, which may have to do with the fact that a significant amount of the 363.5 million square feet of office inventory is comprised of older, functionally obsolete buildings whose owners lack the working capital to modernize. Construction is mainly limited to build-to-suit transactions and remodeling projects, as full-scale spec development cannot be justified based on current lease rates. Currently, over 2.3 million square feet of space in the construction queue, most of it preleased. In Q1, another 604,642 square feet was delivered, but that included a fully leased, 555,000-square-foot facility for Bristol-Myers Squibb at 3401 Princeton Pike.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

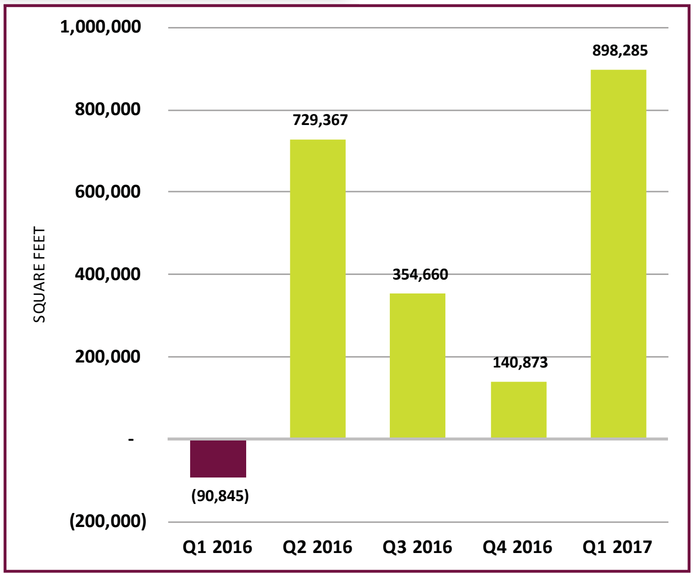


A LOOK AHEAD

- Lease activity will remain strongest in the best Class A product in prime submarkets
- Average rents for Class A space along the Gold Coast will approach $50 per square foot
- Net absorption should hit 1 million square feet in 2017
- Average asking sales prices could decline due to transactions involving functionally obsolete buildings
- Construction starts will decline due to stricter loan underwriting standards, including higher interest rates and lower loan-to-value ratios
- Vacancy should fall below 13% by year-end

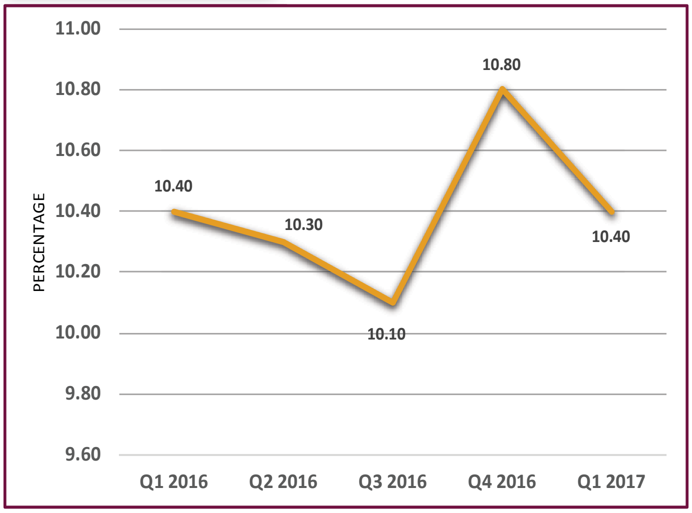
COLUMBIA, MARYLAND

NET SF ABSORPTION



*numbersreflectthegreaterBaltimoreregion

VACANCY RATE



*numbersreflectthegreaterBaltimoreregion

TRENDING NOW

The Columbia office market, which includes downtown Columbia through Maple Lawn in Howard County, is strategically located between the cities of Baltimore and Washington DC. The area is home to several government security agencies and their subcontractors that provide thousands of jobs for the region's highly educated workforce. Columbia/Ellicott City was recently named the No. 1 place to live in America by Money Magazine and is also recognized as the third most affluent county in US. Job growth has been steady and the county's unemployment rate continues to run in sync with the current national rate of 4.7%.

The Columbia South Downtown area is the primary CBD outside of Baltimore itself, and is the destination of choice for medium to large office-using employers. It contains several existing Class A office properties with more on the way. Three new buildings being developed by the Howard Hughes Corporation as part of its Merriweather District project will soon be the new homes for MedStar and Pearson PLC. Tenants are attracted the Downtown Columbia's high concentration of walkable amenities, the hot button for highly sought after millennial generation workers. Recent increases in activity have boosted rent growth in the area, which has directly benefitted owners of older nearby buildings who can present their properties as an attractive and less expensive alternative to cost-conscious tenants.

Columbia South ended Q1 with just 6% of its 9.85 million square foot base unoccupied. Neighboring Columbia Town Center and Columbia North submarkets posted vacancy rates of 13.4% and 7.9%, respectively. By

10.4%	$22.72	898,285	140,557,934	1,526,870
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INVENTORY (MSF)	SF UNDER CONSTRUCTION

COLUMBIA, MARYLAND - TRENDING NOW (continued)

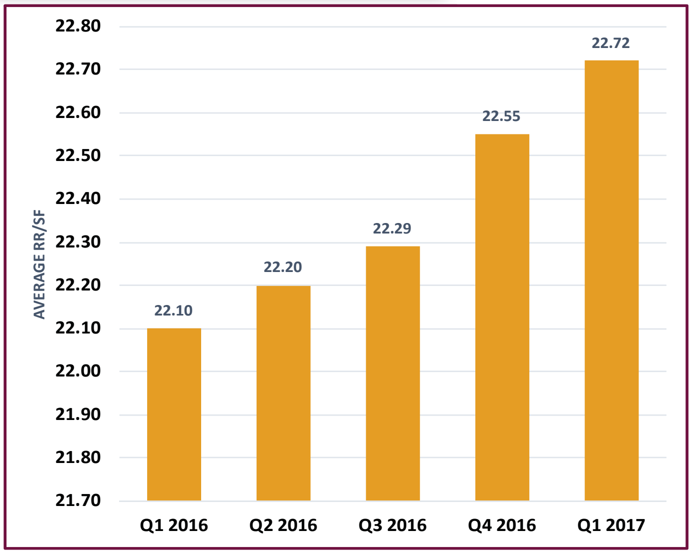
comparison, the overall vacancy rate for all building classes in the Baltimore region stood at 10.4% by the end of the quarter.

Average asking rental rates continue to move up. Year-over-year, the Greater Baltimore region has seen a rental rate increase of $.62 ending Q1 at $22.72, but the local market saw rent growth of approximately 4.9%. The asking rate in the Columbia Town Center is $26.05, in part due to the fact that new deliveries and construction activity have been concentrated there. That submarket had 367,000 square feet of new space delivered in 2016, another 155,900 square feet delivered in Q1 of 2017, and over 120,000 square feet of space is still in the construction queue. Columbia North and Columbia South ended the quarter with average asking rates of $26.88 and $25.17, respectively.

Columbia Town Center posted the highest absorption in the local market with a 129,000 square feet net gain in occupied space, second only to the BWI North/Linthicum submarket. Columbia South increased total occupancy by just under 44,000 square feet, while Columbia North added over 61,000 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.

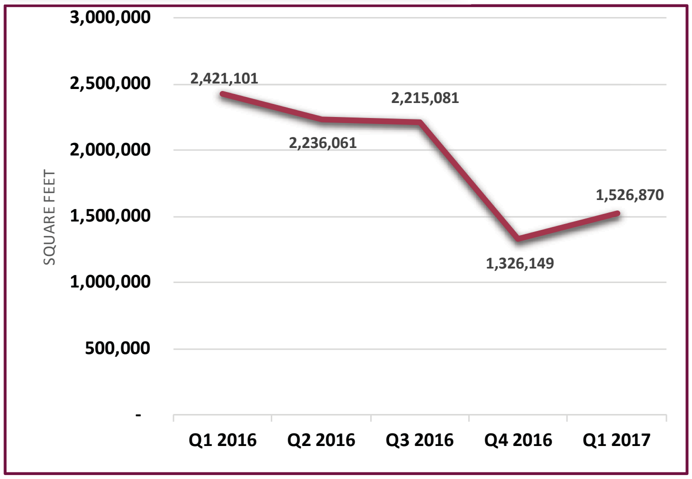
Developers remain challenged by the lack of available land. So, many builders are actively pursuing smaller infill and redevelopment projects to avoid the high cost and protracted time frames associated with large scale, ground-up development.

AVERAGE SF RENTAL RATES



*numbers reflect the greater Baltimore region

SF UNDER CONSTRUCTION



*numbers reflect the greater Baltimore region

A LOOK AHEAD

- Net absorption should be positive for the balance of the year
- Vacancy in the Columbia Downtown will fall as tenants move into new buildings upon completion
- Asking rents for Class A space are in the $25 range, but new space will lease in the low to mid $30 range
- Environmental regulations due to proximity to the Chesapeake Bay will restrict new supply
- As long as amenity-rich space remains available, current leasing trends should hold steady fo the next 12 to 24 months

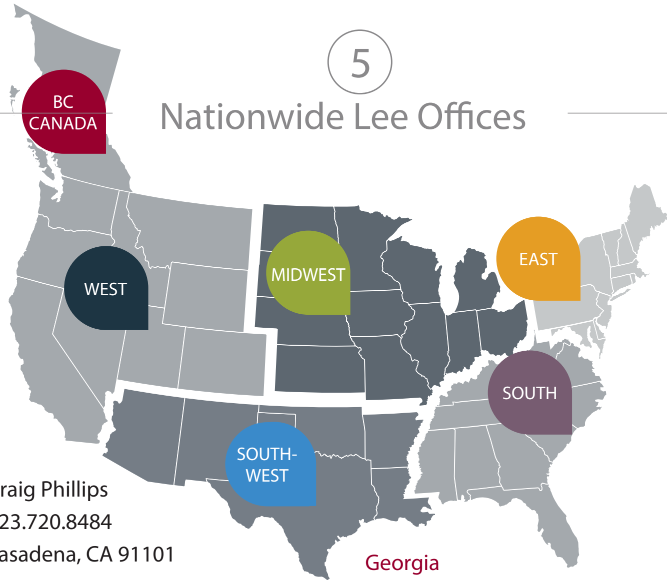
SELECT TOP OFFICE LEASES Q1 2017

BUILDING	MARKET	SF	TENANT NAME
2300 Cloud Way	Austin	550,750	Oracle
Sentinel Square III	Washington	473,000	Federal Communications Commission
200 Vesey St	New York City	395,279	RBC Capital Markets
515 N. State	Chicago	385,050	Outcome Health
4 World Trade Center	New York City	378,243	Spotify USA, Inc.
HP Buildings 1&2	Houston	378,000	HP
925 11th Ave	South Bay/San Jose	350,000	Amazon
28 Liberty St	New York City	342,484	New York State Attorney General
370 17th St	Denver	333,929	Encana Oil & Gas (USA), Inc.

SELECT TOP OFFICE SALES Q1 2017

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
Equitable Building	New York City	1,706,007	$1,143.02	4.6%	CalPERS	AXA Financial, Inc.
Deutsche Bank	New York City	1,625,000	$640.00	N/A	GIC Real Estate	Paramount Group, Inc.
RXR Mack-Cali NJ Office Portfolio	Northern NJ	1,056,033	$348.47	N/A	Mack-Cali Realty Corp	RXR Realty
Crossroads Courtyard Center	South Bay/San Jose	349,758	$831.15	5.2%	Tristar Capital	Rockwood Capital, LLC
6501 Legacy Dr	Dallas/Ft Worth	1,830,000	$247.54	N/A	Dreien Opportunity Partners	JC Penney Company, Inc.
CPT/Spear Street	Houston	1,187,458	$229.06	10.2%	Spear Street Capital	Columbia Property Trust

5 Nationwide Lee Offices



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