The Lee Office Brief

Tech and TAMI Fuel Absorption in Major Markets

Q1 2015

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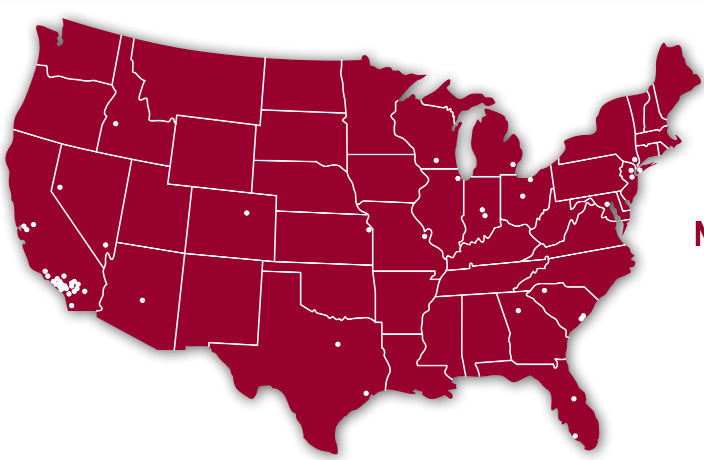

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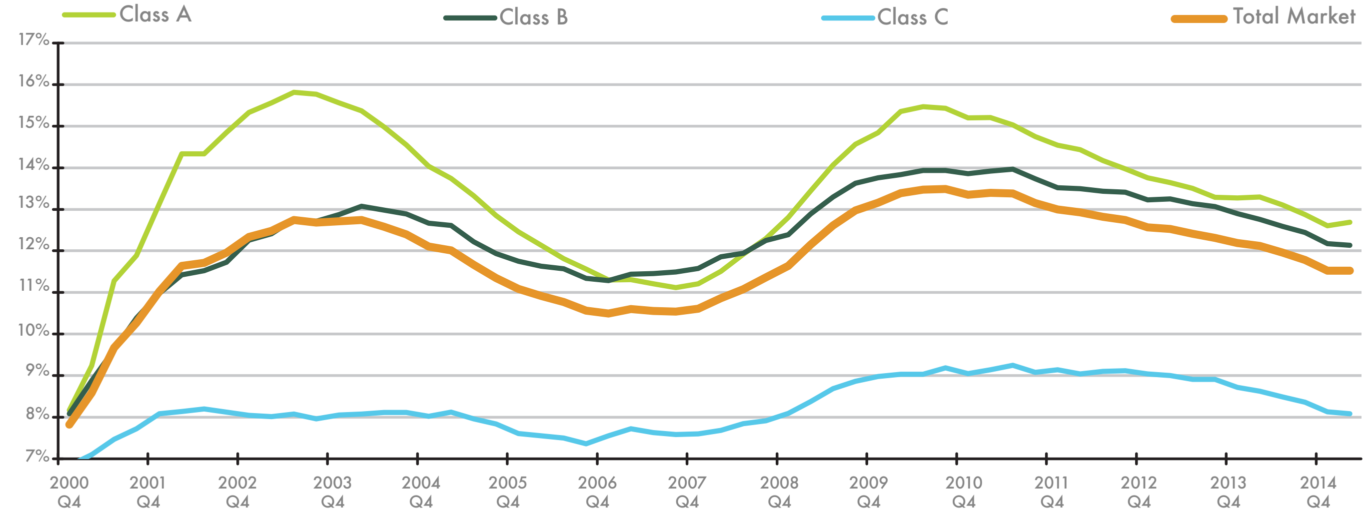
TRENDING NOW

The US office market kept on its path of recovery in Q1, recording another vacancy decline of 10 basis points to 10.9%. However, a disproportionate amount of the leasing activity occurred in a handful of major markets, while many smaller, secondary markets remained relatively static. In the past four quarters, the overall vacancy rate has moved down by 50 basis points, as big corporate users have been pulling the trigger on expansion plans. As a result, large blocks of space are becoming harder to secure in markets like San Francisco where growth in the tech sector has boosted job creation and sent rents soaring

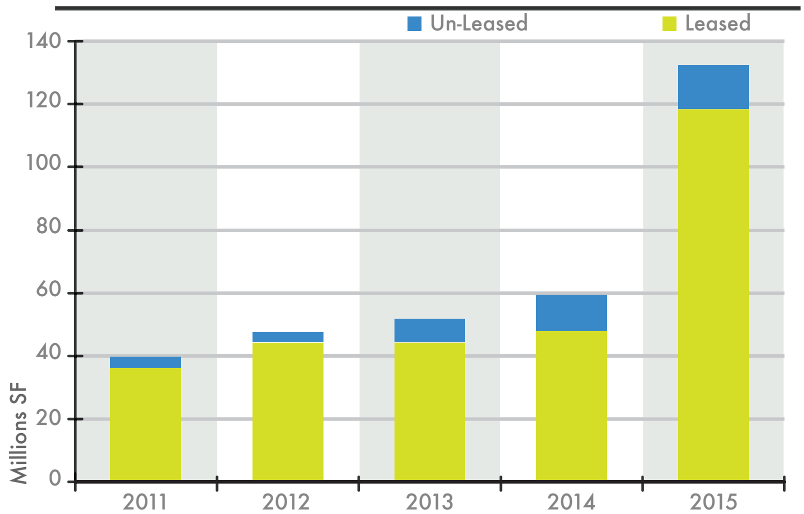
Vacancy Rates by Class 2000-2015



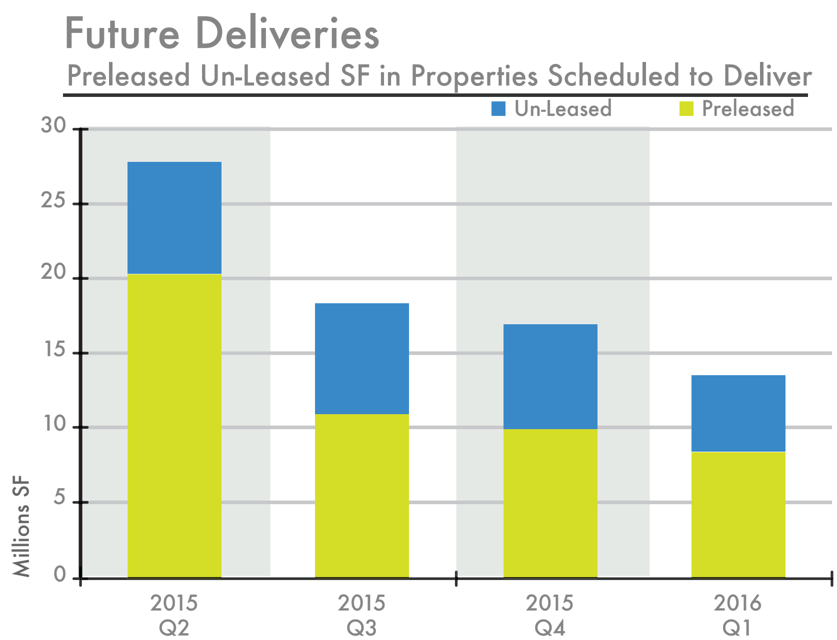
New deliveries remained steady for the quarter. Over 16.5 million square feet in 244 buildings were added to the country's existing base of 10.5 billion square feet. In the past four quarters, over 61 million square feet of space has been completed, and another 115 million square feet was underway by the end of Q1, which will keep 2015 on pace in terms of expanding the country's stock of office space. Central Business District's (CBD) in the biggest markets will see the most construction activity, and much of that will be in mixed-use projects with residential and retail components.

Recent Deliveries

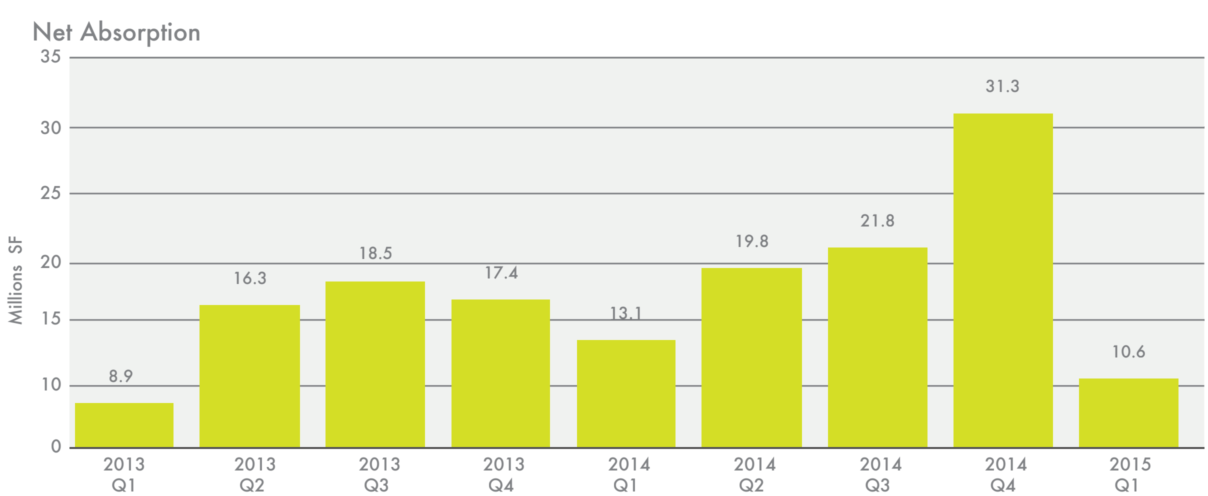
Leased & Un-Leased SF in Deliveries Last 5 Years



While many projects are substantially pre-leased, speculative development activity is on the rise due to optimistic forecasts for strong rent growth and net absorption. Some secondary markets are getting back in development mode, as well, especially those with vacancy declines into single digits. However, cautious developers and their lenders will still look for substantial pre-lease commitments in those markets.



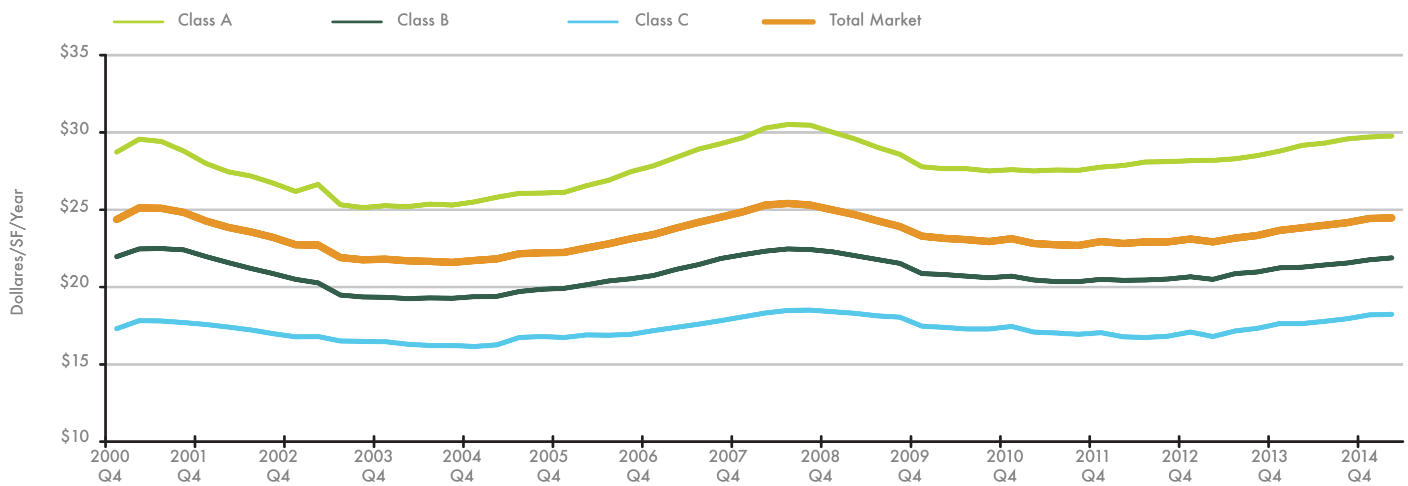
Net absorption for Q1, remained positive at 15.4 million square feet, but fell well short of Q4's total of 37.5 million square feet. However, seasonal differences may account for some of the shortfall, as Q1 of 2014 saw similarly light gains in occupied space. Most local market experts predict that net absorption for this year will remain near 2014 levels, but supply shortages in some markets could see growth in occupied space moderate until new deliveries pick up the slack. Class A led the way again in Q1, posting a gain of 8.1 million square feet. Class B added another 6 million square feet to the total. Users, looking for the efficiencies gained through higher employee density and communication technologies are stepping up to higher rental rates and controlling occupancy at the same time.



Average asking lease rates for the US moved up another .4% in Q1 to $22.74 per square foot. Rent increases were recorded in most primary and secondary markets around the US, with the biggest gains seen where there are concentrations of TAMI (technology, advertising, media and information) and healthcare companies. Energy-based markets like Houston are beginning to see rent growth level off, as near-term demand for space is expected to slow until energy prices stabilize at higher levels. Class A space in downtown areas and urban cores, rich in amenities, are recording the strongest rent gains overall.

Historical Rental Rates

Based on Full-Service Equivalent Rental Rates 2000-2015



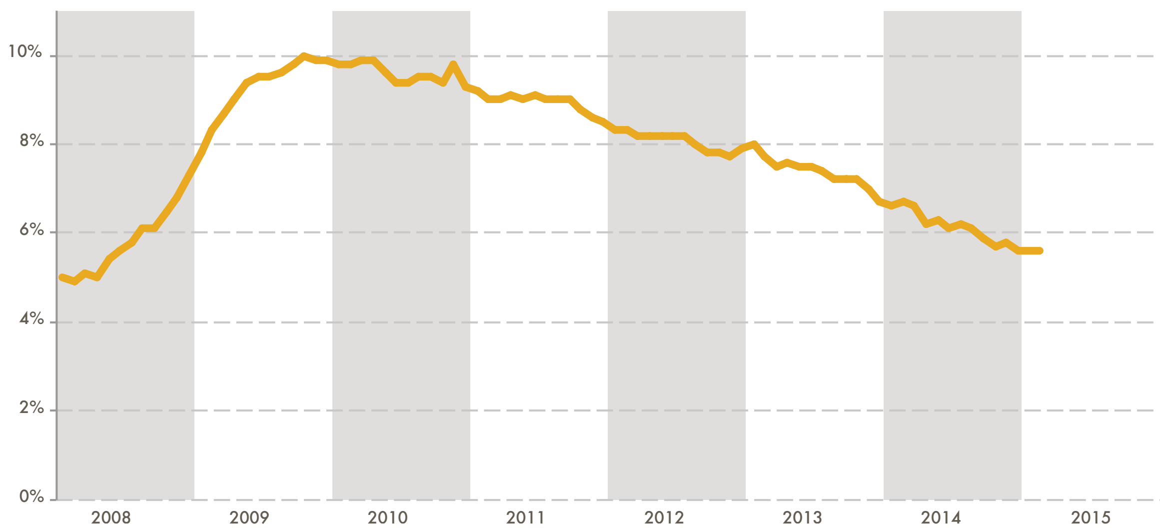
Investor interest in office properties continued to increase. Domestic institutions that see substantial rent growth in this up-cycle as likely, compete aggressively for trophy assets in major markets, which has driven cap rates to new lows. Foreign buyers, flush with cash and motivated to place capital in what they believe is the world's safest economy, are adding to the competitive mix and keeping supply well short of demand. This is good news for better-performing secondary markets, as big investors will acquire product at compressed cap rates there, as well. The appetite to take on more risk is also manifested by the rise in value-add opportunities in markets with well-located older product that can be updated and repositioned to capture tenants who need to attract and retain younger workers.

ECONOMIC DRIVERS

The nation's total output of goods and services showed significant improvement in 2014. GDP grew at an annual rate approaching 3%, but lower than anticipated due to a disappointing fourth quarter after back-to-back quarters in the 4% to 5% range that had everybody talking about better times ahead. Unfortunately, preliminary estimates for Q1 GDP growth are not optimistic. Another cold winter for most of the country is expected to negatively impact Q1 performance. Bad weather was blamed for a 2.1% decline in the first quarter of last year. With circumstances being so similar, poor Q1 performance will not come as much of a surprise. The Congressional Budget Office recently released its annual economic forecast, and it calls for GDP growth of 3% for the year.

The unemployment rate has been moving down for several years, and is now fluctuating in the mid-five percent range. The national unemployment rate through February remained at 5.5%, but tends to fluctuate by a tenth or two each month, as the impact of new jobs is balanced against the change in the number of unemployed workers rejoining or exiting the work force. Part-time positions remain a problem, and may be giving a false sense of improvement to the economy, as these jobs yield less spendable income to boost GDP. The Labor Participation Rate, which measures the number of people eligible to work compared to those who are gainfully employed, is stuck at 62.7%, lowest in four decades. This is partly due to retiring Baby Boomers, but more importantly, it is indicative of a lack of quality jobs at rates of pay that motivate more participation in the work force. However, recent increases in the number of workers quitting existing jobs indicates greater confidence amongst workers that better positions are on offer.

National Unemployment

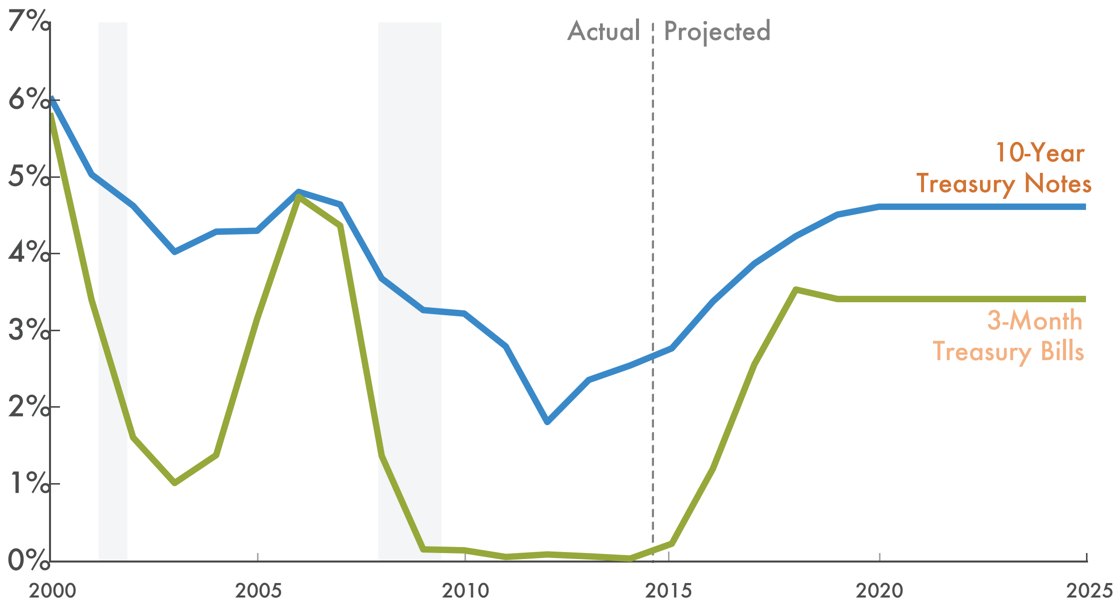


Job growth picked up the pace in 2014, which showed up in the net absorption gains for the year. Job creation ranged from 200,000 to 300,000 per month in 2014, topping out at 353,000 in November. Then 2015 got off to a strong start. January and February hit 275,000 and 295,000 in new job creation respectively, but March was another story altogether, adding a meager 126,000 jobs for the month. Many didn't see it coming, and the reasons are not clear, but it is cause for concern, and it will put all eyes on April's report along with preliminary GDP estimates for the quarter. However, the poor job numbers gave the stock markets a boost, as investor concerns over a near-term move by the Fed to raise rates were softened.

Wage growth is perhaps as much a concern as job growth. Since the last recession, real wage growth has been disappointing, with many of the jobs being created in the unskilled and semi-skilled categories. The increase in the number of part-time jobs is also a drag on wage growth. Without more disposable income, GDP growth will be negatively impacted since consumer spending makes up roughly 70% of GDP. The slowdown in the energy sector is also affecting wage growth, as jobs in that sector tend to be higher paying and full time. Layoffs in energy have become commonplace again, and it will certainly curtail job creation in the energy states. Fortunately, job gains in technology, professional services and the TAMI sector have been strong and are expected to remain so. While these sectors offer more of a benefit to the office market, any net gain in jobs and income helps the economy at all levels.

While job and GDP growth are closely watched, attention to Fed action is keener still. Our central bank has taken unprecedented steps over the past six years to stimulate economic growth, which seems to receive more attention than the economic drivers it seeks to influence. By holding interest rates to near zero for over five years, yields on investments of all kinds have been negatively affected. Savers have been punished, as yields on cash deposits fall well short of what little inflation we have, and investors have been forced to take on more risk to get even nominal yields on their capital.

The equities market has soared for the past five years as result, as it is offers a chance at a reasonable yield without giving up liquidity. Real estate borrowers have also benefited from Fed actions. Long-term financing is still available at historically low rates. Low cost of capital has also contributed to cap rate compression in markets around the country. Positive leverage is still a possibility, even with cap rates as low as 4% for prime properties. But, that is still double the yield of the 10-Year T-Bill, which, in mid-April stood at 1.9%. When treasury yields finally go up as the Fed moves interest rates higher, cap rate decompression to maintain that spread becomes a real possibility. Investors will have to focus on markets where rent growth is strongest to make up the difference. Exit cap rate estimates will have to go up, which will bring IRR's down accordingly.



Source: Congressional Budget Office

Thankfully, quantitative easing (QE) is finally behind us, so now it becomes a question of when the Fed makes a move on interest rates. While many believe that will occur in Q2, others think no rate hike will occur until GDP and core inflation become more predictable.

The global economy is another variable for our central bank to consider before bumping our interest rates. The European Central Bank announced an aggressive QE program just as we ended ours in the US. With growth either at zero or in negative territory in the Eurozone, it may not be a good time for our central bank to make things more difficult domestically. Several central banks in Europe even have moved core rates into negative territory in their attempt to avoid a potential deflationary cycle that would stall out the chances for economic growth in the region.

Changes in currency valuation are also impacting economic growth domestically. The US Dollar has moved to all-time highs against the Yen and the Euro. That means additional buying power when purchasing foreign goods and services with US dollars, but it also has a negative impact on US companies with revenues generated from their customers who pay in other currencies.

Oil prices remain in the $50 per barrel range after plummeting from $107 per barrel in June of 2014. Industry experts are all over the board in terms of predicting an end to the decline. Here again, the good news is also bad news. Lower energy prices have put tens of billions back in the pockets of US consumers, but they have also hurt job growth in energy states and reduced the level of exploration and extraction activities across the country. Excess supply is to blame, and that is due to increased productivity in the US and anemic worldwide economic growth, which has reduced demand for fossil fuel products. OPEC has thus far refused to cut production in response, which many believe is a strategic move to slow US production by pushing prices low enough to make US oil and gas extraction unprofitable. At the moment, that strategy seems to be working.

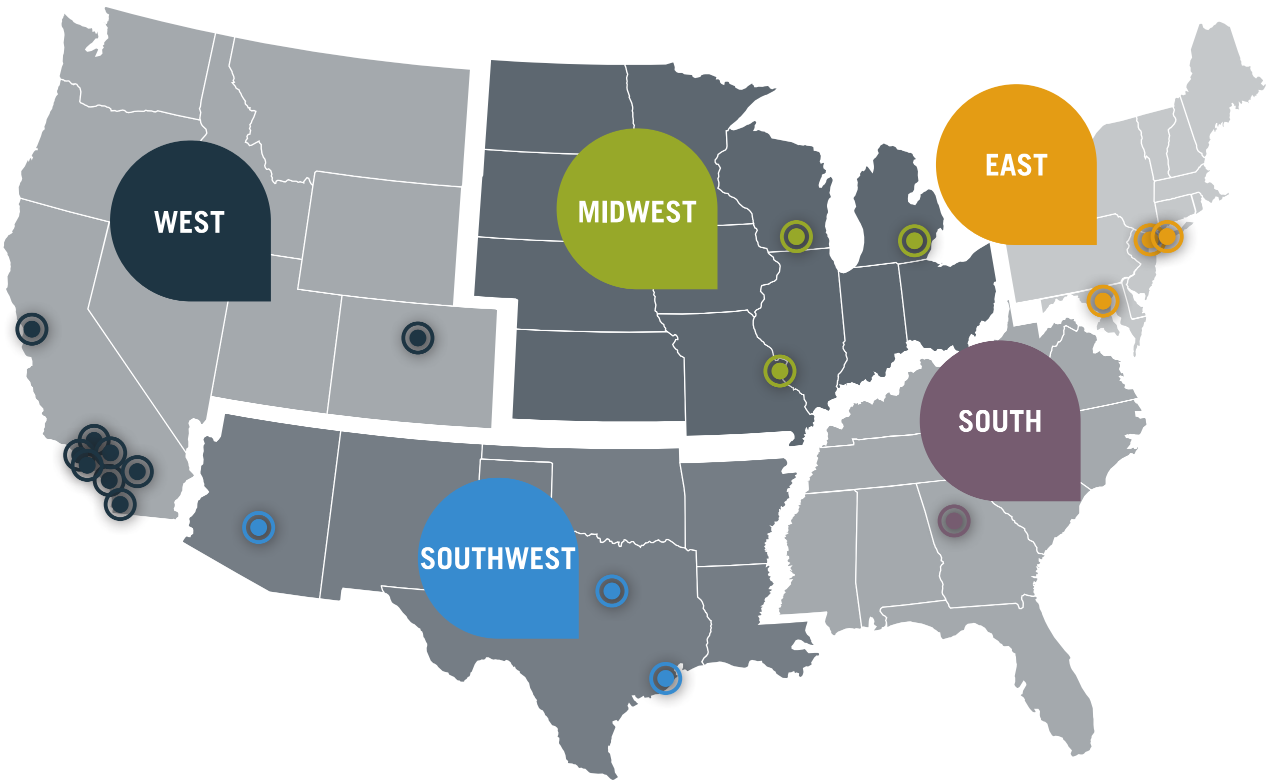
A LOOK AHEAD. The US office market should remain strong through the end of 2015. Domestic GDP and job growth should be healthy enough to offset a sluggish global economy. The strong dollar and influx of foreign capital make clear the perception that the US economy is once again the strongest and healthiest in the world. The dollar is still the world's reserve currency and US Treasuries are still considered the safest investment alternative.

Low oil prices will be with us for the near term and that will give consumers more buying power and lower operating costs for US businesses. This will increase consumer spending in the short term and stimulate additional job growth across the country. Energy dependent states will have a rougher time until prices stabilize at much higher levels. Expect more layoffs in high-paying energy job categories and a significant slowdown in domestic production until the price of oil makes sense to extract and refine again. Fortunately, gains in employment, even in the energy states, are broad-based enough to stay in positive territory overall.

Vacancy rates will continue to decline and net absorption will remain at least at current levels. However, markets with the lowest vacancy will see absorption and leasing activity moderate due to lack of supply. Cap rates will remain compressed due to record high demand, but they could begin to move in the other direction once the Fed makes a move on interest rates. Higher interest rates means higher yields on alternative investments, which could hurt the equities market and pricier real estate markets in the short term. Office development should remain at the current pace, with CBD's and core suburban markets seeing the most construction activity. Mixed-use projects will gain in popularity as cities insist on higher densities to mitigate automobile traffic and minimize environmental impact.

A wild card issue of Q2 may be the Supreme Court ruling on the challenge to health care subsidies offered through Healthecare.gov. If the plaintiffs in the case prevail, the viability of the entire program will be called into question, and uncertainty over the healthcare for millions of workers would be back in play.

Key Market Snapshots



To view a key market snapshot either click on a section of the interactive map above or on the cities below.

ORANGE COUNTY
LA NORTH
WEST LA
SAN GABRIEL VALLEY
LONG BEACH
INLAND EMPIRE EAST
SAN DIEGO
OAKLAND / EAST BAY
DENVER

PHOENIX
DALLAS / FORT WORTH
HOUSTON

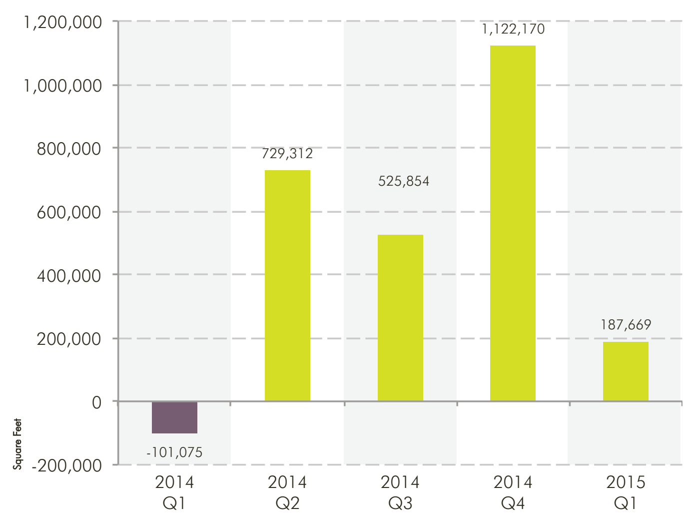
DETROIT
ST. LOUIS
MADISON

ATLANTA

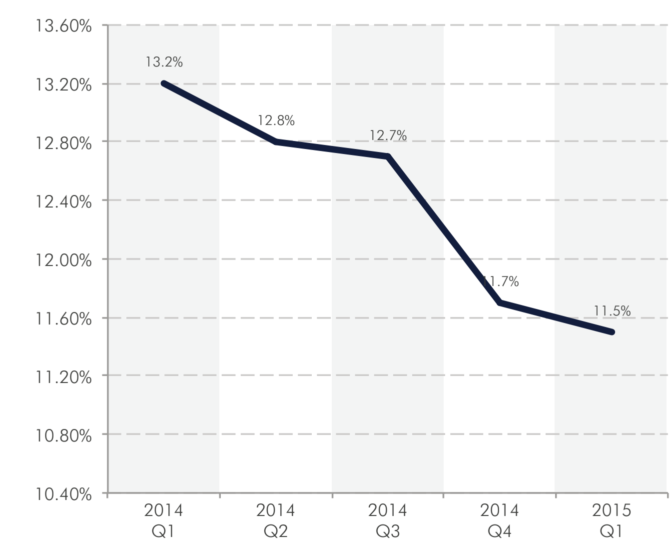
BALTIMORE
MANHATTAN
NORTHERN NEW JERSEY

ORANGE COUNTY

Net Absorption



Vacancy Rate



TRENDING NOW

Orange County's office market improved substantially in 2014, and that trend continued into the first quarter of 2015. Just 11.5% of the 110 million square-foot office base* is currently vacant, shaving off another 20 basis points for the quarter down from a peak of 17.5% back in 2010. Positive net absorption for Q1 checked in at 187,669 square feet to the plus side, continuing the streak of net gains in occupied space. However, the dwindling supply of large blocks of space is becoming a major concern, development of new office product is moving slowly. Only one major speculative project was under construction during the quarter, the Irvine Company's 472,000 square foot class A building in the Irvine Spectrum. Lack of available land and rents that still lag behind rising construction costs are combining to keep new projects on the drawing boards. Broadcom's new campus in the Great Park area of Irvine is likely to be the only other major development in 2015.

Leasing activity for the quarter came in at 2.6 million square feet, the tenth straight quarter north of the 2 million mark. As a result the average asking rental rate moved up again, ending the quarter at $2.37per square foot/month for Class A and $2.00 per square foot/month for Class B. Class A rents are moving up

11.5%	$25.68	187,669	110,330,848	542,595
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

ORANGE COUNTY - TRENDING NOW (continued)

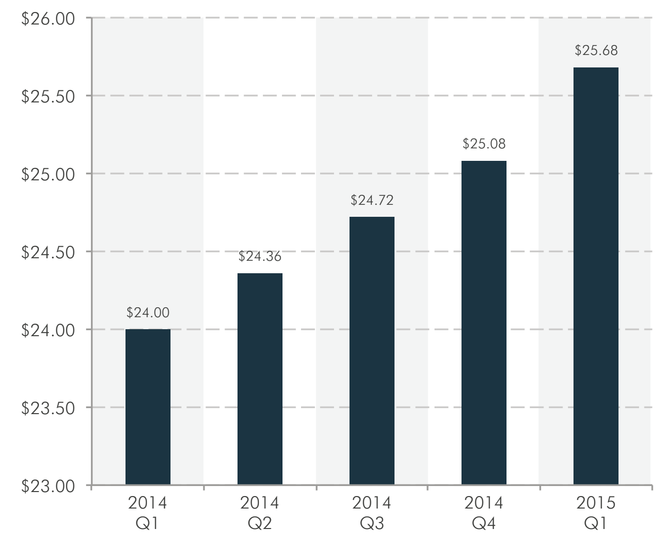
the fastest, but the dwindling supply of Class A space has landlords of Class B product pressuring tenants to pay more. Creative space is also becoming a more viable alternative for users looking to upgrade in quality and efficiency. While the Greater Airport submarket is still the number one choice for Class A users, the Central County submarket is experiencing more demand for Class A properties, especially from larger users.

These tightening conditions have increased investor interest in the Orange County office market. Over $1.5 billion dollars changed hands for office product in 2014, and competition for quality product remains fierce. Cap rates remain compressed and could see another move down this year. The lack of supply is also shifting investor interest in Class B product that can be improved as creative space, which tenants have demonstrated a willingness to pay a premium for.

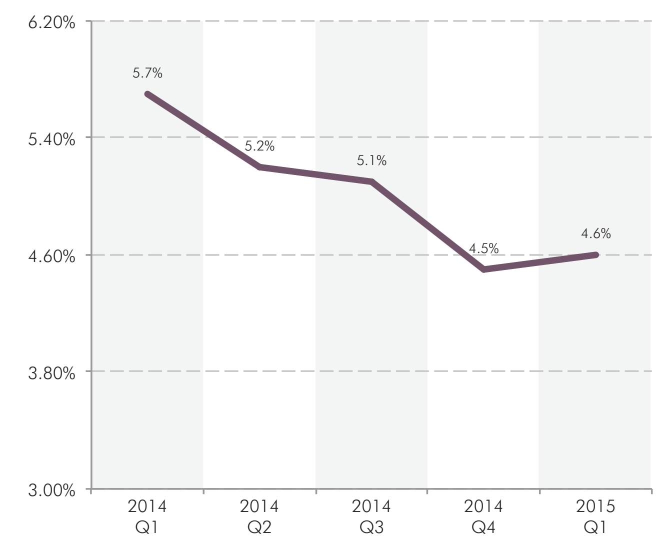
Driving all this activity is an improving job market. Orange County's unemployment rate moved down another 40 basis point during the quarter to a post-recession low of 4.6%. Year-over-year the rate dropped 160 basis points to keep it well below the statewide, which stood at 6.8% at the end of February. Strong job growth sectors include professional services, health care, education, technology and hospitality, which all helps to backfill losses in financial services employment, the hardest hit sector in the last recession.

* buildings with a minimum of 30,000 square feet

Average SF Rental Rate



County Unemployment Rate

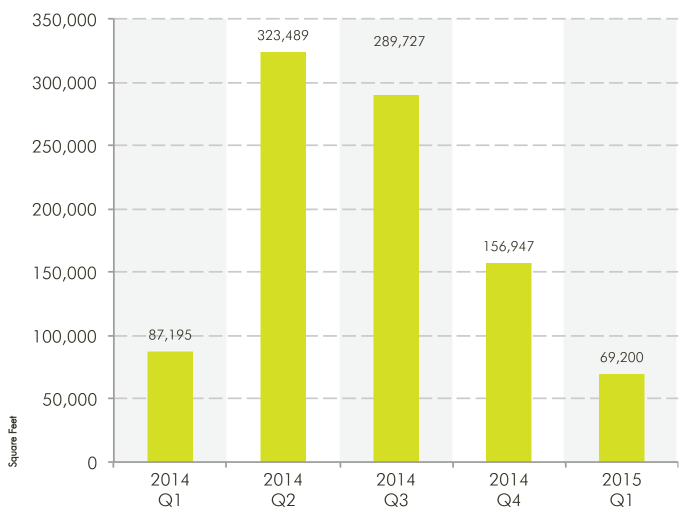


A LOOK AHEAD.

- Leasing activity will remain strong in the Greater Airport, Central County and South County Submarkets
- Supply of larger blocks of quality space will tighten further
- Delivery of new product will remain thin for the next two years
- Class B properties will get a boost as Class A vacancy moves down throughout the year
- Lease rates could move up 10% to 15% in the Greater Airport Area, and 3% to 5% in Central County
- Net absorption may moderate as more tenants will be forced to renew their leases due to declining supply of quality space
- Look for more Class B buildings in Central County to be acquired and retrofit to creative space
- Cap rates will compress even further as demand for quality assets increases
- Parking will become more of a problem as open floor plans bring down the square footage allocation per employee

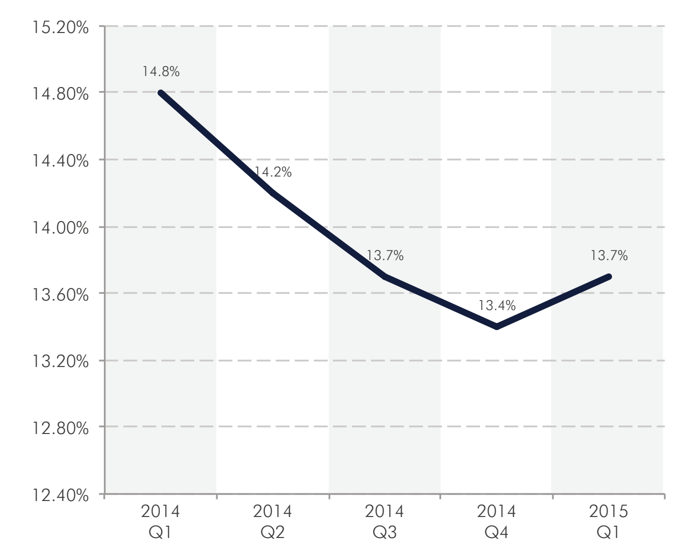
LA NORTH

Net Absorption



*San Fernando Valley

Vacancy Rate



*San Fernando Valley

TRENDING NOW

The Los Angeles-North region includes the area north of the Ventura (101) Freeway, extending east to Glendale, west to the Conejo Valley and north to the Antelope and Santa Clarita Valleys. The largest concentration of office space runs along the 101 corridor from Glendale to Woodland Hills, including Burbank and Warner Center. While the overall region has steadily improved, some pockets of high vacancy persist, including Warner Center with a 13.1% vacancy rate at the end of Q1. This is largely due to the sheer amount of space in that market and, since Warner Center has traditionally housed much of the San Fernando Valley's financial industry, the lingering effects of the mortgage meltdown. Warner Center is also among the submarkets with the highest asking rental rates in the region at $2.31 per square foot.

LA North vacancies bumped up a bit in the first quarter, rising 30 basis points to 13.7 % for the market overall. However, year over year, vacancies improved by 110 basis points. Average rental rates, though still on an upward trajectory compared with last year, ended the quarter down $0.01 to $2.25 per square foot across all building classes. Net absorption slipped to 69,200 square feet leased, however the weakness was mainly due to a handful of large spaces that became available in

13.7%	$27.00	69,200	53,963,000	134,900
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION
▲	▼	▼	▲	▼

LA NORTH - TRENDING NOW
(continued)

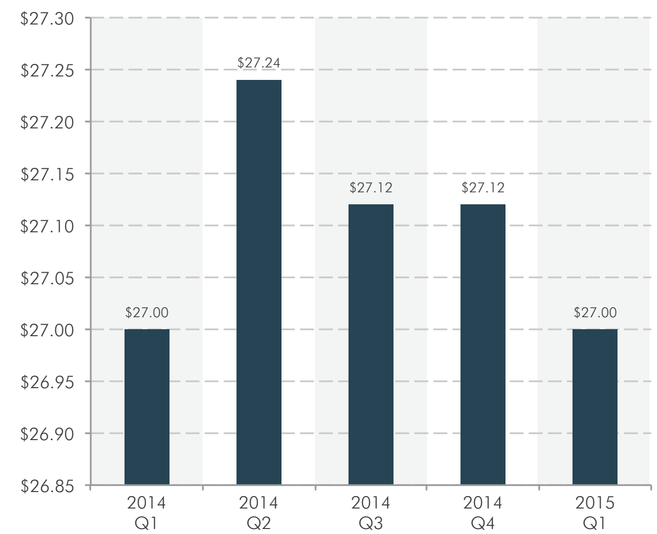
in some of the more active submarkets including Sherman Oaks and Warner Center.

Demand for creative office space has picked up substantially in the past year. The trend, which began in West Los Angeles, has definitely made its move over the hills to North Los Angeles. This is putting pressure on existing landlords to re-invest in their properties to accommodate tenant preferences for open floor plans, abundant natural light and new textures and materials.

The medical space market is also picking up momentum, and not just from traditional medical users. Demand from a broad spectrum of medically related uses is on the rise, including weight management, anti-aging therapies, home healthcare and autism treatment are contributing to the resurgence. Demand from these users is focused on ground floor space in high density commercial corridors. Competition for prime space is heating up, and landlords are getting good space leased faster and at higher rates.

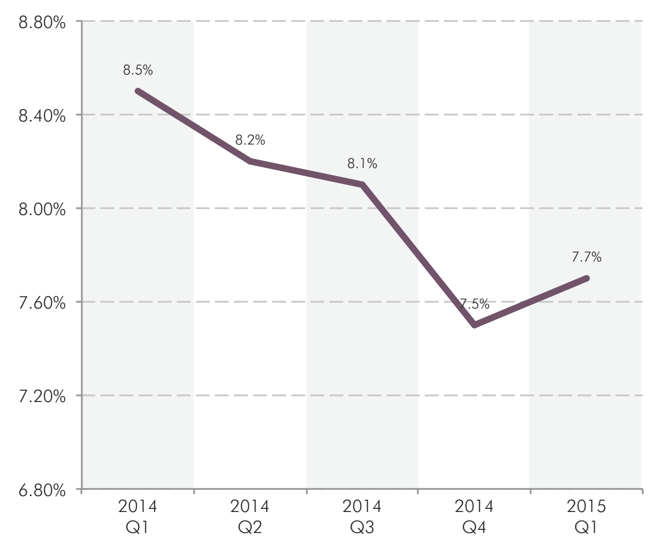
New development is progressing slowly, hampered by a lack of available sites and rents that are still making new product hard to pencil, especially in submarkets still experiencing double-digit vacancy. Sale activity picked up substantially in the quarter in part due to increasing interest from institutional investors. These buyers also drove a 17% increase in median prices for office buildings to $245 per square foot.

Average SF Rental Rate



*San Fernando Valley

County Unemployment Rate



A LOOK AHEAD.

- Lease rates should continue to move up during the year, but at a slow to moderate pace due to pockets of high vacancy throughout the region
- Unless new tenants with large space demands come into the region, absorption will remain moderate throughout 2015
- Sales prices will see another year of double digit gains as supply continues to tighten
- Construction activity will remain slow, concentrated in smaller projects
- Trophy buildings in prime submarkets will get a disproportionate share of the leasing activity as tenants see the opportunity to move up in quality
- Creative space tenants will boost leasing activity and help push average asking rental rates higher

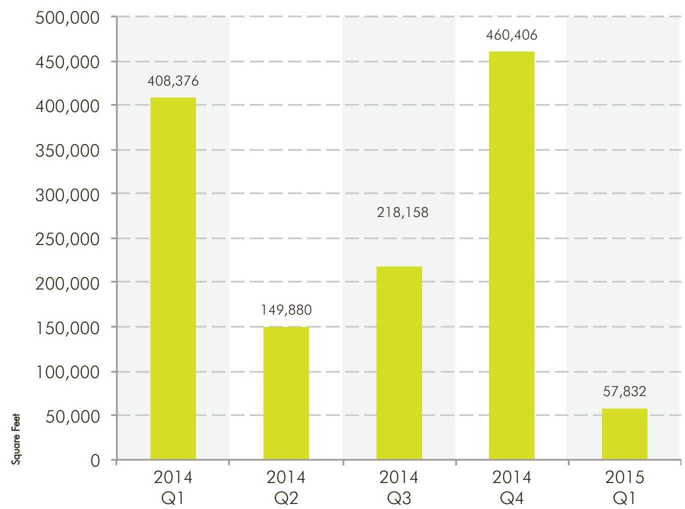
WEST LA

TRENDING NOW

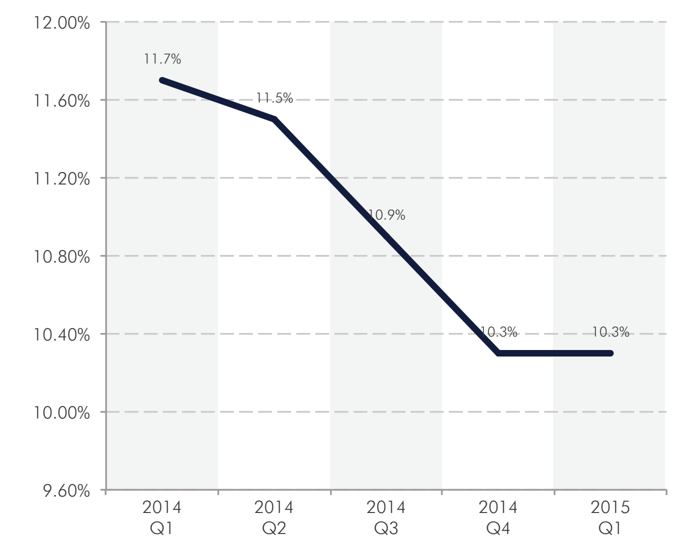
The West Los Angeles office market includes Santa Monica to the North West Hollywood to the East and Playa Vista to the south. The area is home to major universities including UCLA and Loyola Marymount University, and also to LAX, one of the world's busiest passenger and cargo airports. West Los Angeles is known for Silicon Beach and has Major private equity and investment firms. Major transportation arteries serving the market include Interstates 10 and 405 and the Marina Freeway.

West Los Angeles has a base inventory of 75,354,999 square feet, 45,500,000 of which is Class A and 19,700,000 is designated as Class B. Prime submarkets include Century City, Santa Monica, Playa Vista and Culver City. Intense demand for quality office space and a lack of new construction has driven up pricing to record levels in West LA. Average asking rental rates for the region have moved up $1.00-2.00 since the first quarter of last year, finishing Q1 of 2015 at $3.75. Rents are highest in Santa Monica and Century City. Class A asking rates hit $5.00-$7.00 per/sf/mo in Q1. Class B asking rates moved up to $2.75-$3.50 per/sf/mo by the end of quarter. That represents an increase of 20%-30% over the same period last year.

Net Absorption



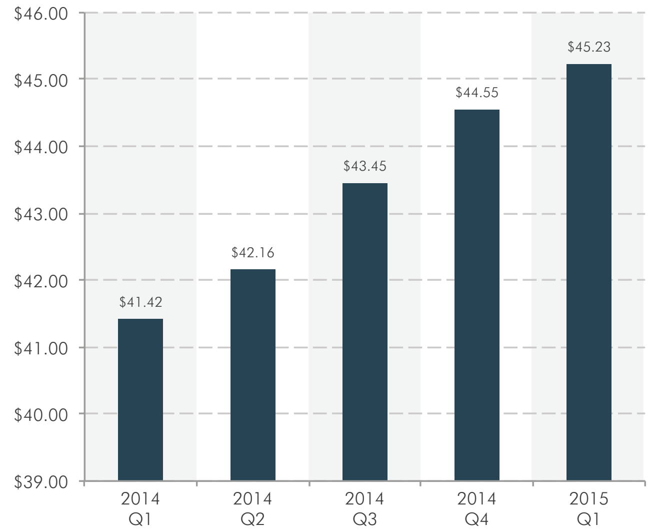
Vacancy Rate



10.3%	$45.23	57,832	75,354,999	253,435
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

WEST LA - TRENDING NOW
(continued)

Average SF Rental Rate

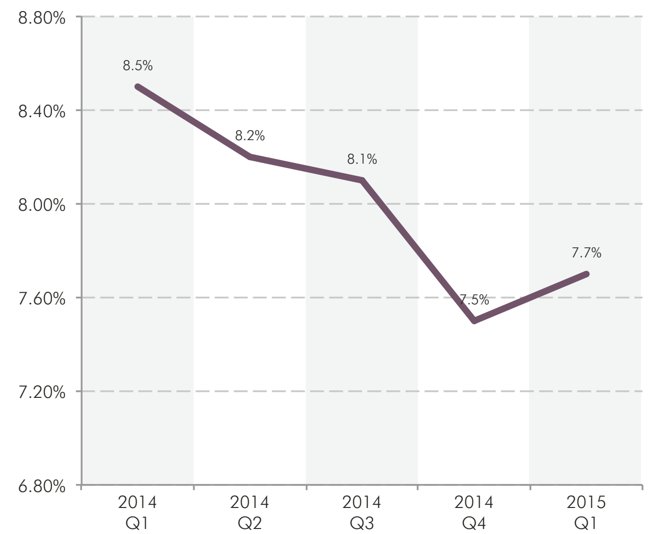


Net absorption has been positive and consistent. Last year, over 1,200,000 square feet of net growth in occupied space was recorded. First quarter absorption was light, but still positive at 57,832 square feet. Landlords, emboldened by the surge in activity are pushing for stronger credit and reducing tenant concessions at the same time. Tenants on the other hand, especially those in the tech sector, are looking for product with higher parking ratios to accommodate the shift to more open floor plans that decrease the square footage required for each employee. Landlords with 4/1000 and 5/1000 parking ratios in their projects are able to drive harder bargains.

Vacancy is definitely on the decline. The overall vacancy rate for West LA for Q1 stood at 10.3%, a 140 basis point decline year-over-year, and down 500 basis points since the peak of the last recession. At the end of Q1, vacancy for Class C fell to 3.5%. Class B came in at 9.8% and Class A settled at 12.1%, down another 100 basis points compared to Q1 of 2014. Larger blocks of Class A space are in decline and that could soon pose a problem for bigger tenants intent on expanding in the West LA market.

Development activity has been nominal, mainly due to a lack of available land. The entire area is nearing full build out, and developers are focusing instead on existing assets that can be retrofit to accommodate creative space users and tech start-ups that are getting heavy funding from venture capital groups.

County Unemployment Rate

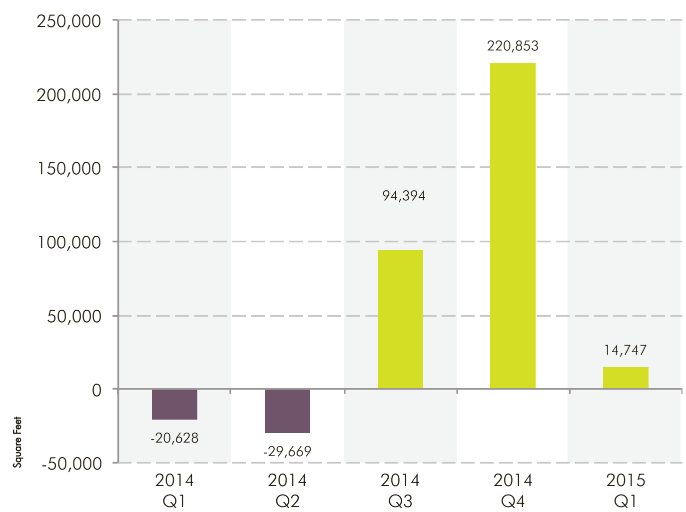


A LOOK AHEAD.

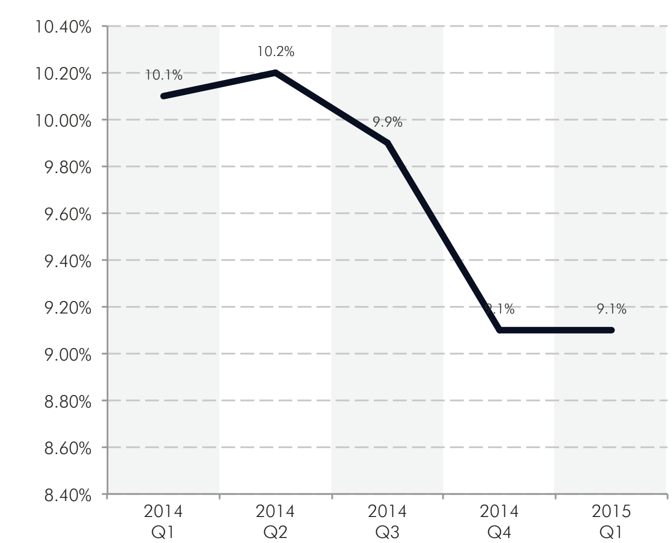
- Net absorption will remain steady as long as there is quality space available
- Vacancy is going to move lower for the rest of the year
- An increase of rental rates of 20% is possible due to tight supply
- Sales prices will jump another 20% this year for the few properties that do come to market
- Construction will be limited to retrofit of existing product
- Tech companies will continue to fuel demand for space, but lease terms may be shorter due to unpredictable growth

SAN GABRIEL VALLEY

Net Absorption



Vacancy Rate



TRENDING NOW

The San Gabriel Valley (SGV) area has a population of nearly 1.8 million and includes 31 cities – from Pasadena to El Monte in the west to West Covina and Claremont to the east. Major transportation arteries include Interstates 10, 57, 60, 71, 210 and 605, which makes it readily accessible to all of Los Angeles County, Orange, Riverside and San Bernardino counties. The region's 30.4 million square-foot base includes Class A buildings in Pasadena and Monrovia, however the majority of properties are older Class B and Class C categories, many of which are exhibiting elements of functional obsolescence. However, the San Gabriel Valley's wide variety of housing appeals to all socio-economic levels, and makes the area an optimum location for large users requiring a diverse workforce.

Employment growth is up and the area is enjoying a steady increase in economic activity. The housing market has improved, although slower than expected, and that has helped job creation and drastically reduced the number of distressed assets that could inhibit further recovery. Last year, net absorption totaled 145,622 square feet, and the first quarter of 2015 added another 76,670 square feet to that gain. Since the majority of transactions in the San Gabriel Valley

9.1%	$23.50	14,747	30,401,759	213,586
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

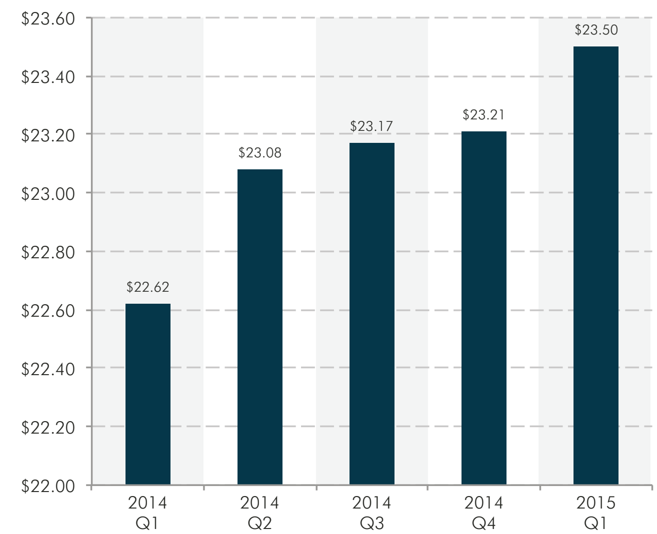
SAN GABRIEL VALLEY - TRENDING NOW (continued)

are under 7,000 square feet, good net absorption performance requires a consistent high level of leasing activity, including medical office, which has experienced a significant pullback due to changes precipitated by the Affordable Care Act. Private practices are giving way to larger medical groups that can absorb doctors into their existing locations. This has increased the amount of smaller medical space offered for lease. Until the true impact of the new law can be quantified, this trend will continue.

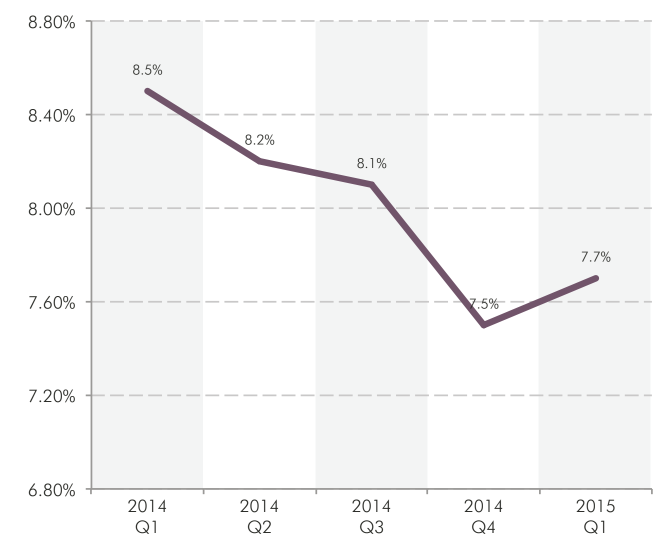
Average rental rates for the region in Q1 for all product types stand at $1.96 per square foot on a monthly basis, as compared to $1.89 the same period last year. Rent growth has been slow, and effective January 1st of this year, Title 24 regulation on energy use is adding an additional challenge to landlords who now have much higher tenant improvement costs to meet the new regulations. The law is hitting the San Gabriel Valley harder than some markets because of the high proportion of older properties that cost more to retrofit. Given the confusing nature of the law, the true cost of its implementation remains largely unknown.

Leasing activity in the quarter hit 482,972 square feet for the quarter, compared to 737,690 square feet in Q4 of last year. As in other markets around the US, the flight to quality is on. Class A space in the West San Gabriel Valley continues to be absorbed at a faster rate than in East SGV. Though, there are preliminary signs of an upcoming supply shortage in some size ranges. With development at a near standstill, that trend is likely to continue. At the end of Q1, 213,586 square feet remained under construction and four more existing office buildings are being converted into condo space for sale, ideal for small users, which make up a significant portion of the business base.

Average SF Rental Rate



County Unemployment Rate

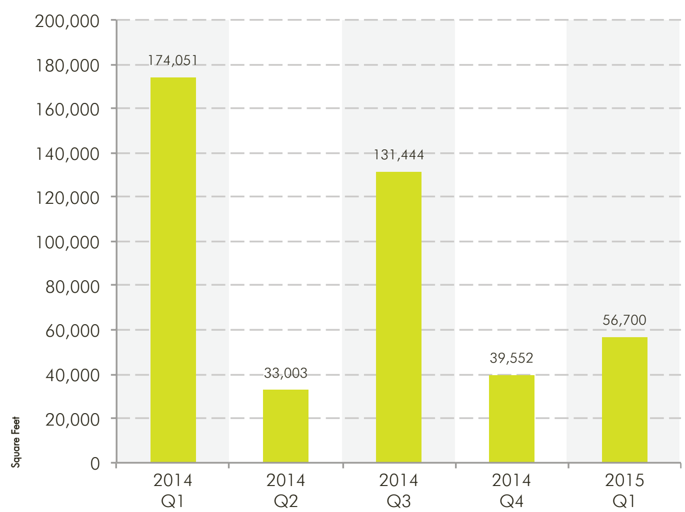


A LOOK AHEAD.

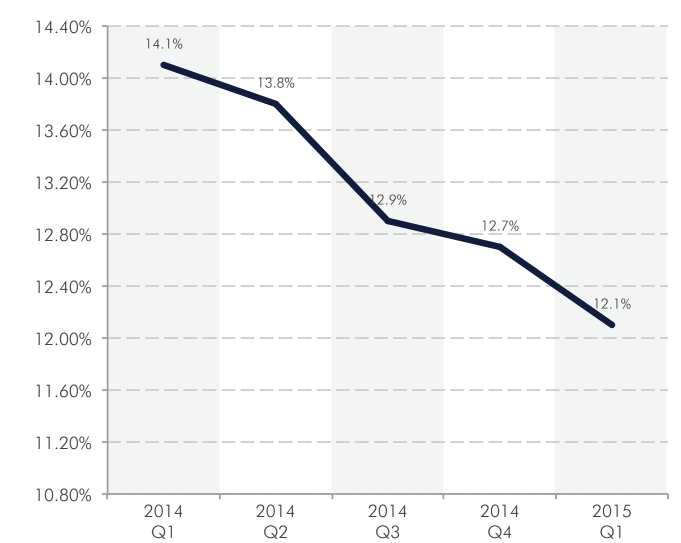
- Net absorption is expected to remain at current levels for the rest of the year
- Vacancy will slowly decline, as transaction activity will stay in the smaller size ranges
- Asking rates will increase slightly for Class A space, mainly in the West Valley submarkets
- Condo conversions will remain the main source of construction activity for owner/users
- Sales prices for owner/user properties will increase, but activity will be slow due to lack of supply
- Leasing activity in smaller medical office properties will lag behind the rest of the market

LONG BEACH

Net Absorption



Vacancy Rate



TRENDING NOW

The Long Beach office market contains an oceanfront urban core with nearly 8 million square feet of office space, much of it in high-rise structures, and a suburban market containing an additional 9.3 million square feet of mainly low to mid-rise buildings. The area is home to the Port of Long Beach, second largest in the US and together with the Port of Los Angeles, the two handle nearly 40% of goods entering the country.

The region, along with neighboring West Orange County, is experiencing a steady recovery from the last recession. In the first quarter of 2015, net absorption posted its fifth straight quarter in positive territory with a 56,700 square foot gain in occupied space. 80% of that occurred downtown. Overall, Class A led the way, accounting for 65% of the total.

Average asking lease rates range from $1.84 per square foot, per month in the suburban areas to $2.16 downtown. Rent growth has been nominal but moving up since 2012, but the region has not seen the rent spikes taking place in other metro areas around the country. That is welcome news to tenants who see Long Beach as long-term location for their businesses. Healthcare firms, in particular, have been especially active. Healthcare companies like Molina Healthcare and

12.1%	$24.48	56,700	17,304,01	109,776
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

LONG BEACH - TRENDING NOW
(continued)

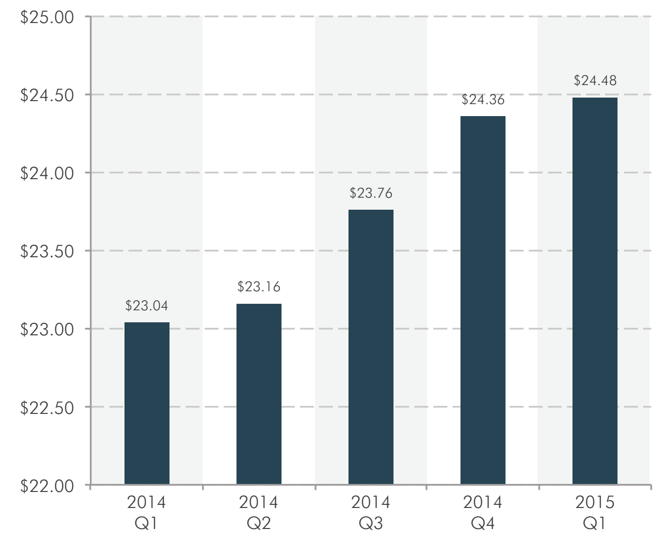
Senior Care Action Network have their corporate headquarters in Long Beach and they continue absorb more space as their businesses grow.

Vacancy is moving down, finishing the quarter at 12%, down 60 basis points during the quarter and down 225 basis points year-over-year. Class A vacancy is moving down faster, finishing Q1 at 11%, while Class B properties in non-core areas are lagging behind. This is due in part to the flight to quality that has been underway for the past several years. Many tenants are looking to improve their space in terms of quality and amenities before further economic growth accelerates the rise in rental rates.

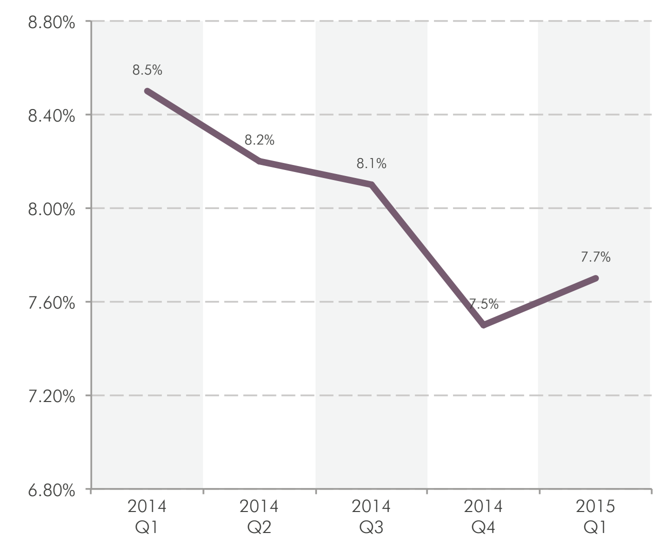
Downtown is undergoing another change, which is having a direct impact on leasing activity. At present, five office buildings, totaling 600,000 square feet, are slated for conversion to high-density residential use. Some notices have been given and those tenants are now in the market for new space, which will give at least a short-term boost to net absorption. New construction is underway in the Douglas Park development near the Long Beach Airport, including a 40,000square-foot corporate headquarters building, a two-building, 90,000 square foot medical office campus and three creative space buildings totaling 57,000 square feet

Purchase demand for owner/user buildings is very competitive. Properties offered for sale often receive multiple offers and sales prices have moved up quickly as a result. Most would-be owners end up remaining tenants, and miss out on the chance to fix occupancy costs with long term financing at rates under 5%.

Average SF Rental Rate



County Unemployment Rate

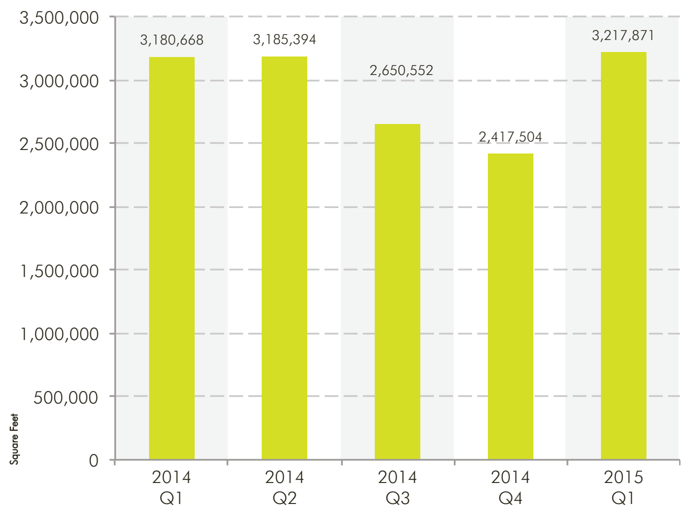


A LOOK AHEAD.

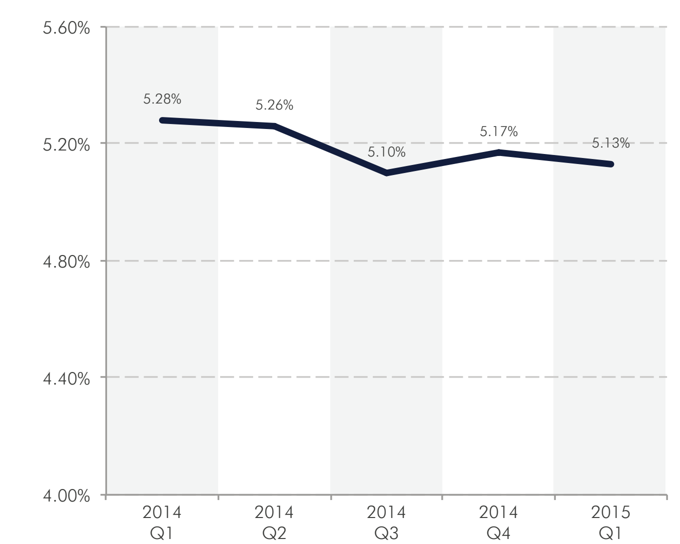
- Gross sale and lease activity will strengthen as the economic recovery accelerates
- Net absorption will remain modest but positive
- Vacancy will continue its gradual decline
- Rental rates overall will rise, but the biggest gains will be in Class A product in core areas
- The owner/user market will push prices significantly over the course of the year
- Construction activity will be primarily in the Douglas Park project. No Class will be constructed downtown

INLAND EMPIRE EAST

Gross Absorption



Vacancy Rate



TRENDING NOW

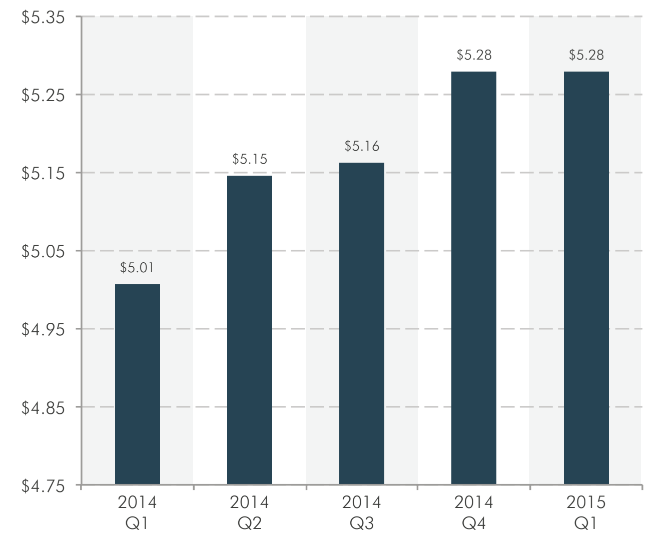
The Inland Empire office property market is a study in contrast to its industrial counterpart. While the industrial market is one of the nation's largest distribution hubs and is thriving in all respects due to its strategic location, the office market has to be self-sustaining and serves only the local economy of Riverside and San Bernardino counties, which are both still battling to recover from a devastating recession driven by the collapse of the housing market. The Inland Empire was hit particularly hard, as it offered abundant new housing to first time buyers that made up a disproportionate number of sub-prime buyers. While most of that damage is now in the past, lingering effects in terms of office-using businesses and overall job and wage growth are still being felt.

The good news is that the Inland Empire office market is expanding again. Net absorption has been positive since 2012, but it is still moving up at a tepid pace because most transactions tend to be under 7,000 square feet. In 2014, positive net absorption reached over 575,000 square feet. The first quarter of 2015 added another 204,041 square foot net gain. Inland Empire West outperformed its other half even though it has a base inventory of just 14 million square feet as compared to 25.4 million square feet in Inland Empire

15.6%	$20.88	98,929	21,944,494	0
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

INLAND EMPIRE EAST - TRENDING NOW (continued)

Average SF Rental Rate

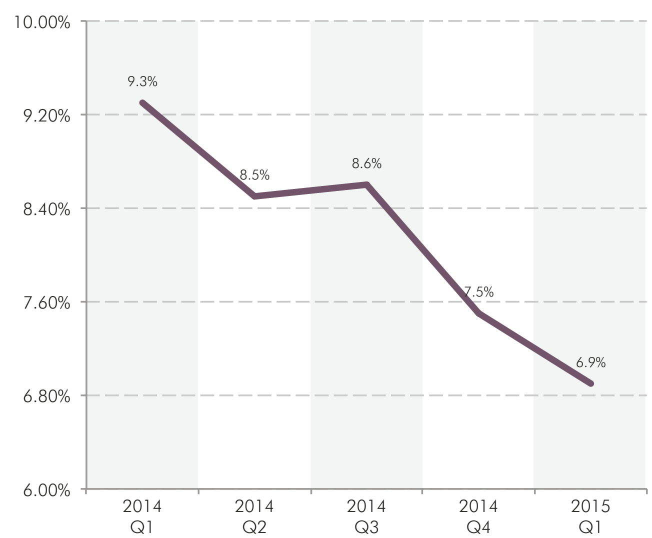


East. Likewise, Class A space is the most active despite Class B having nearly four times the base inventory.

Vacancy continued its steady move down in Q1, ending the quarter at 10.8%, which was a decrease of 20 basis points over Q4 of last year and a decline of 110 basis points year-over-year. Class a vacancy finished the quarter at 12.5% 110 basis points over the Class B rate. Average asking rental rates fell 20 basis points in Q1 to $19.32 per square foot. Class A rates held steady at $25.05, with Class B running $5.82 under that number at $19.23.

Development of new office space is on hold, as might be expected based on market conditions. This gives vacancy a chance to move down faster and return the market to a condition where rent growth reappears and new construction can get underway. With coastal markets further along in recovery, institutional interest in the Inland Empire is on the rise. Cap rate compression and competition for assets is limiting opportunities elsewhere. So it shouldn't be long before institutional capital flow begins to impact the market.

County Unemployment Rate
*Riverside County

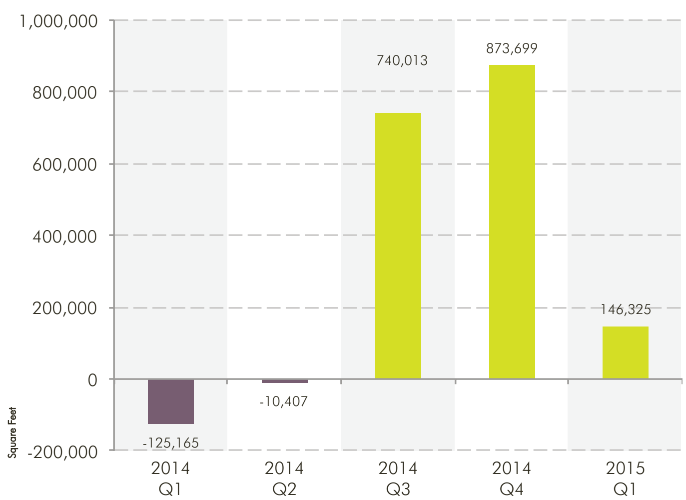


A LOOK AHEAD.

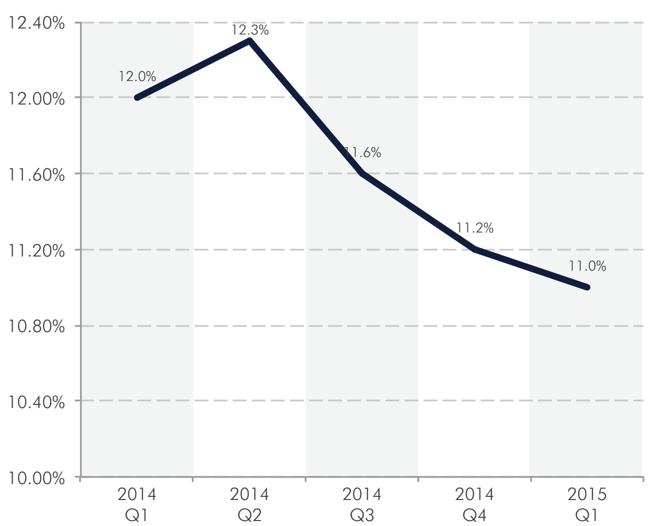
- Activity from users from 3,000-7,000 square feet will increase throughout 2015
- Lack of larger blocks of space could hurt market activity until development gets underway
- Vacancy will decline throughout the year, but it will move down slowly due to market activity being concentrated in smaller transactions
- Asking rates will increase by as much as 5% and lease concessions will decrease
- Sales prices for owner/user deals will see a double digit increase again this year
- No new construction in 2015
- Institutional money will return to the Inland Empire office market in 2015

SAN DIEGO

Net Absorption



Vacancy Rate



TRENDING NOW

The San Diego area has been steadily recovering from its low point in 2010. The region has a strong balance of business sectors, most notable of which is Defense, which employs over 100,000 active duty and 30,000 civilian workers, generating over $20 Billion in annual economic activity. The Life Sciences industry attracts significant venture capital and employs over 42,000 physicians and scientists. Aerospace companies, another major economic contributor, are expected to experience up to 30% growth over the next six years, largely due to the development and manufacture of drones. Cross-border commerce is also a growing economic driver for the area. Unemployment in San Diego County has fallen to 5.3%, well under the rate for California overall.

Stabilized economic activity is adding momentum to the region's office market. The vacancy rate for all building classes has fallen to 11.0%, down from 11.2% last quarter. Year-over-year vacancy fell 100 basis points, and all submarkets are continuing to improve. Leasing activity is highest in spaces under 10,000 square feet.

Net absorption was over 1.3 million square feet in 2014 and the first quarter of the new year followed that up with 146,345 square foot gain in occupied

11.0%	$28.77	146,325	113,331,228	923,864
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▼	▲	▲

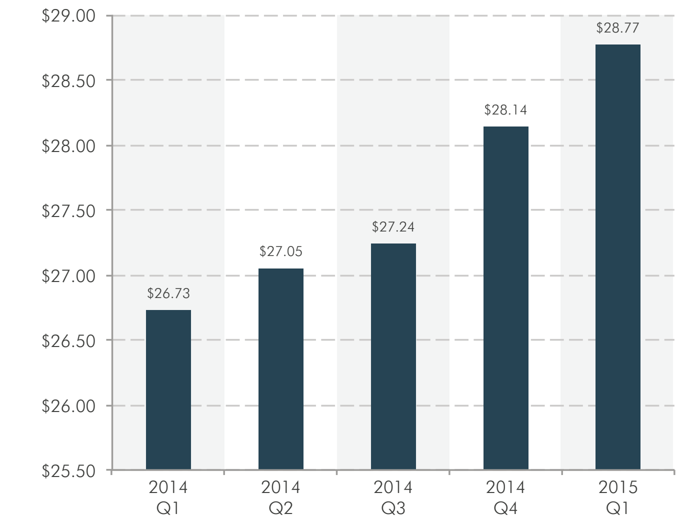
SAN DIEGO - TRENDING NOW
(continued)

space. Class A accounted for 275,954 square feet of that number, but Class B went into negative territory for the quarter. Individual deals contributing to Q1 net absorption included a 77,000 square foot lease to Kaiser Foundation at One America Plaza and a 75,000 square foot lease to Ardea Biosciences at 9390 Towne Center Drive.

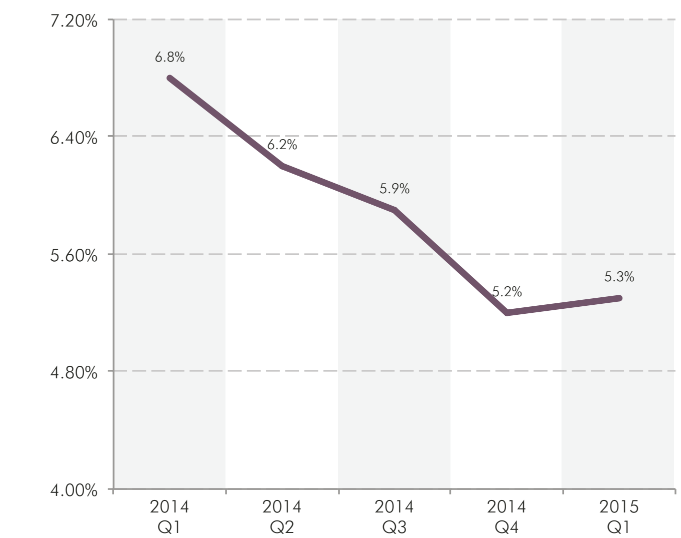
Average asking lease rates are definitely on the rise. In Q1, the average for all building classes moved up $.63 to $28.77 per square foot. Class A rents moved up $.59 to $36.52. In UTC where the Irvine Company is constructing a 306,000 square foot office tower, the average asking lease rate has topped $36 per square foot. Class B rents are also moving up as a result of rising rents in Class A. Class B asking rates stand at $27.10 up $1.96, year-over-year.

Sale activity is being held back by a lack of supply, a common phenomenon in major metro areas around the country. Owner/user product is scarce and cap rates for investment properties remain compressed, especially for Class A product, as institutional buyers are very interested in acquiring office properties in San Diego. They like the location, diverse economic base and the prospects for long term rent growth in a market that is approaching infill status.

Average SF Rental Rate



County Unemployment Rate

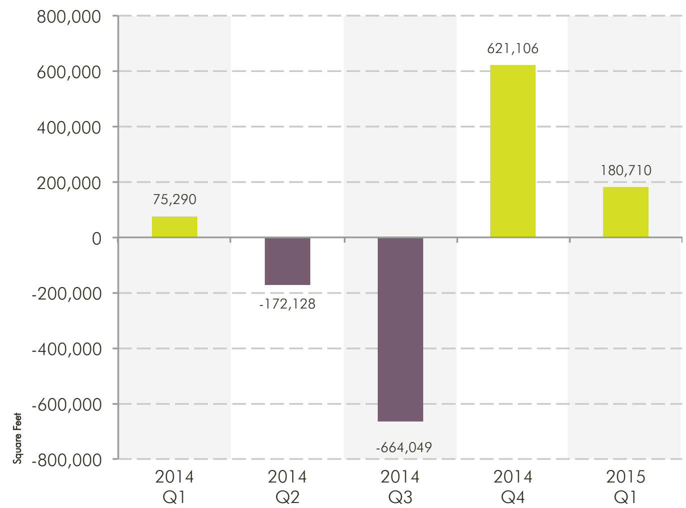


A LOOK AHEAD.

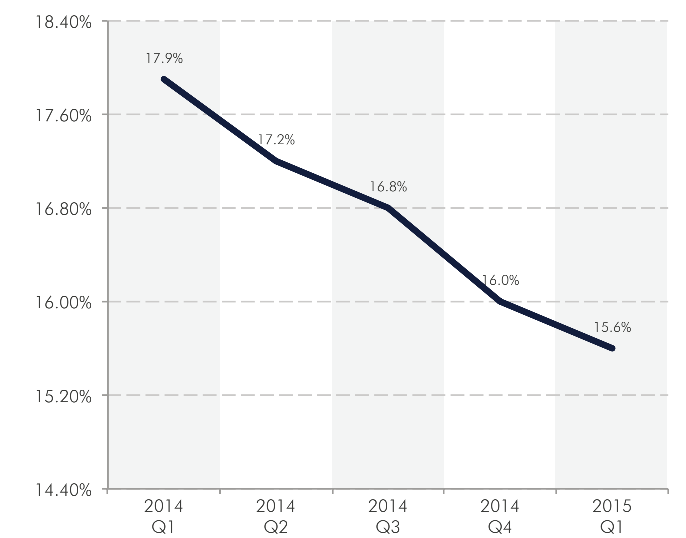
- Leasing activity will be very strong as tenants aggressively pursue quality product
- Vacancy will keep declining as very little new inventory will be delivered in 2015
- Net absorption will be strong and consistent due to solid job growth and positive economic outlook
- Vacancy in Kearny Mesa, Sorrento Mesa and Mission Valley will be well under 10% by year end
- Asking rental rates will move up another 10% to 15% in 2015
- Sales prices for owner/user buildings will spike again unless interest rates make a big move up
- Development activity will be concentrated in the repositioning of existing assets
- Creative space will be more of a factor going forward

OAKLAND / EAST BAY

Net Absorption



Vacancy Rate



TRENDING NOW

The Oakland/East Bay area's proximity to the two hottest tech markets in the country is clearly impacting the metrics of its office property market. The City of San Francisco and the counties of Santa Clara and San Mateo have been riding a wave of expansion in the technology sector for the past several years. Rents, absorption, leasing activity and vacancy have all improved dramatically as established players in the tech world have been expanding rapidly and start-ups are constantly introducing new technologies. This enormous appetite for space has reached across the bay to Oakland and East Bay markets, with similar results.

Positive net absorption in the Oakland/East Bay market hit 280,000 square feet in the first quarter of 2015. That represents a year-over-year rise of 670,000. That number includes activity in Oakland, Emeryville, Berkeley, Alameda, and Richmond. With sky-high rates and dwindling supply in San Francisco, rents in the Oakland/East Bay area are also on the rise. The average asking lease rate for the region stands at $29 per square foot across all building classes. Class A rents stand at $32.40, up another $2 from just a year ago. Class B rents moved up $.50 year-over-year to $25. Rates for Class A are rising

11.2%	$24.81	180,710	109,503,725	115,000
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

OAKLAND / EAST BAY - TRENDING NOW (continued)

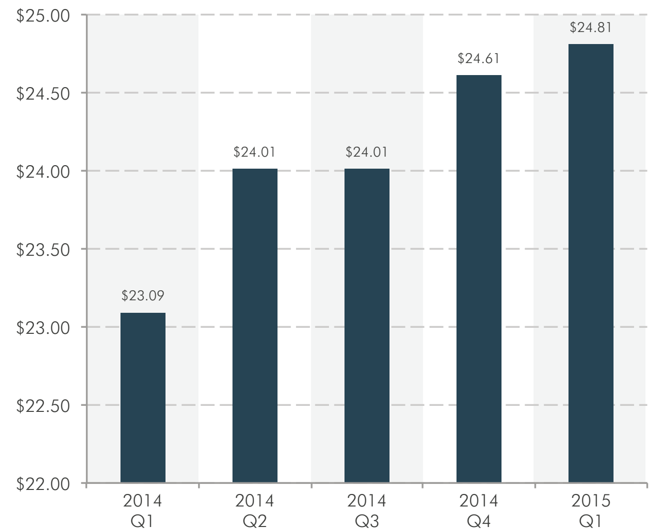
faster, especially for larger blocks of space, which are beginning to show signs of becoming in short supply.

Vacancy overall sits at 12.5% down another 2 basis points since last quarter, and a total of 250 basis points compared to the first quarter of 2014. Class B is faring best with a vacancy rate of 7.75% while Class A vacancy stands at 14.5%, but that number varies substantially by submarket. Activity is best in Class A buildings in the City Center Oakland CBD, Lake Merritt Oakland CBD and in brick and timber spaces that appeal to creative space users.

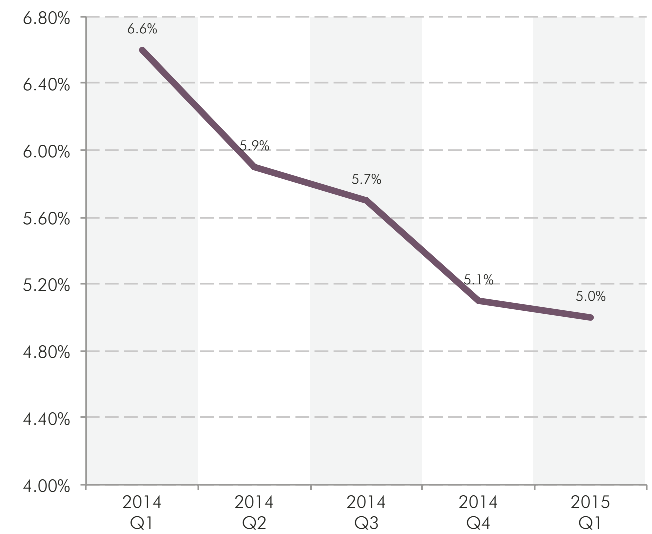
Development of speculative office space is still on hold until rates move up further to justify rising construction costs. However, that could be sooner rather than later if a large tech user from across the bay, frustrated by short supply of good product, commits to preleasing a large block of space. Of course, the lack of new supply is helping to push vacancy down faster, which will cause rents to rise faster to a level that supports new construction.

Sale activity would be through the roof if there was product to buy. Owner/users are scouring the market for anything that could work, as the likelihood of high interest rates becomes more apparent. Sales pricing has spiked dramatically. However, the severe shortage of properties is impacting the current demand. This is compounded by demand from residential retrofitters, eager to reposition older office and industrial properties to residential and mixed use projects.

Average SF Rental Rate



County Unemployment Rate

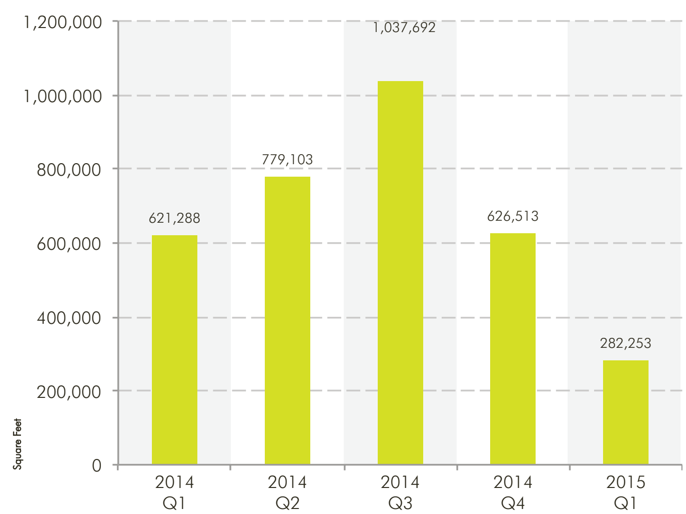


A LOOK AHEAD.

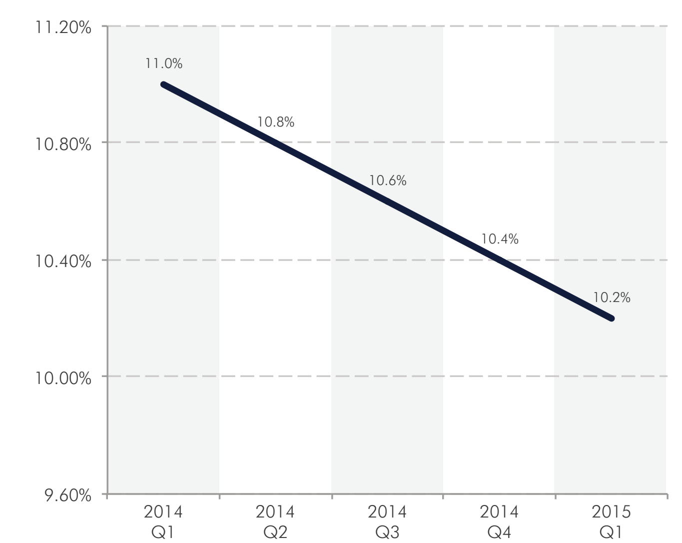
- Demand for lease and sale product will remain strong
- Vacancy for Class A product will decline to single digits
- Sales prices will continue to spike due to short supply
- Net absorption will increase
- Asking rates for Class A space could reach $48 by year end in the most desired submarkets
- Development will remain on hold for the short term

DENVER

Net Absorption



Vacancy Rate



TRENDING NOW

Recent changes in vacancy, absorption and average asking rental rates have shifted the advantage to landlords throughout the Denver region. Driven by strong job growth in professional and business services and energy, the area's economy has improved dramatically since the end of the recession. While the workforce grew by double the national rate last year, the potential impact of a fall in fossil fuel pricing is becoming a major concern. Some layoffs have been announced and the timetable for many new oil exploration projects is being pushed back until the pricing returns to more acceptable levels. The office market will be affected, but it is too early to assess the damage to the ongoing economic recovery. However, the area continues to attract a younger, highly educated workforce that enjoys Denver's urban lifestyle and access to world class outdoor recreation.

Net absorption hit a positive 282,253 square feet in Q1, but slowed considerably compared to last quarter's total of 626,513 square feet and Q1 of 2014's tally of 621,000 square feet. Class A contributed 216,000 square feet of the net for Q1, while Class B added another 75,000 square feet. Class C ran slightly in negative territory at -9,300 square feet. With otherwise solid gains in net occupancy over the past several years, the

10.2%	$23.50	282,253	190,305,689	2,673,204
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

DENVER - TRENDING NOW (continued)

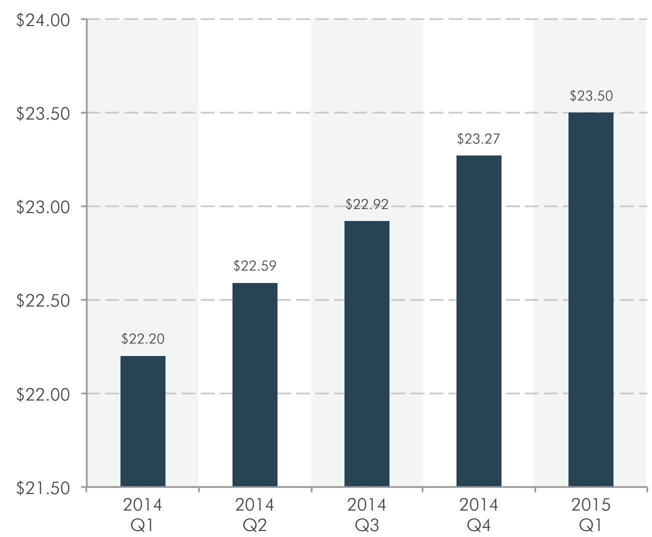
choice of quality space has become a concern for larger tenants, especially in prime submarkets. This is helping secondary and tertiary markets that still have substantial vacancy. More users are also turning to creative space alternatives in order to increase efficiency and appeal to the emerging millennial workforce.

Average annual rental rates keep moving up and tenants who signed leases back in 2009 and 2010 are experiencing ''sticker shock,'' as rates have risen dramatically in the past five years. The average asking lease rates for all building classes hit $23.50 in Q1, up $1.30 year-over-year and $3.70 since the end of 2011. Class B rents finished the quarter at $20.48, up $.19 for the quarter and $.92 year-over-year.

Delivery of new inventory continues in LoDo, Cherry Creek and the Southeast suburban submarkets, but until these projects are leased up and the disruption in energy production is sorted out, construction activity will lighten. In 2014, over 1,764,000 million square feet was delivered, and another 2,673,204 square feet remained under construction by the end of Q1. Deliveries hit a lull in Q1, with just 15,277 square feet added to the 190 million square foot base.

The vacancy rate finished the quarter at 10.2%, down 80 basis points since the same time last year. Class B has seen a larger drop in that time frame, falling 100 basis points as compared to a decline of 60 basis points for Class A.

Average SF Rental Rate

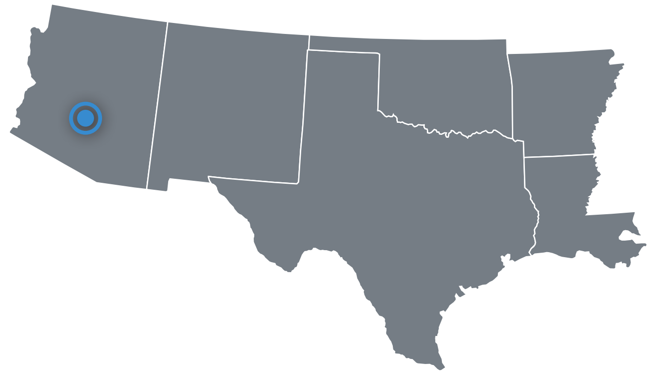


County Unemployment Rate

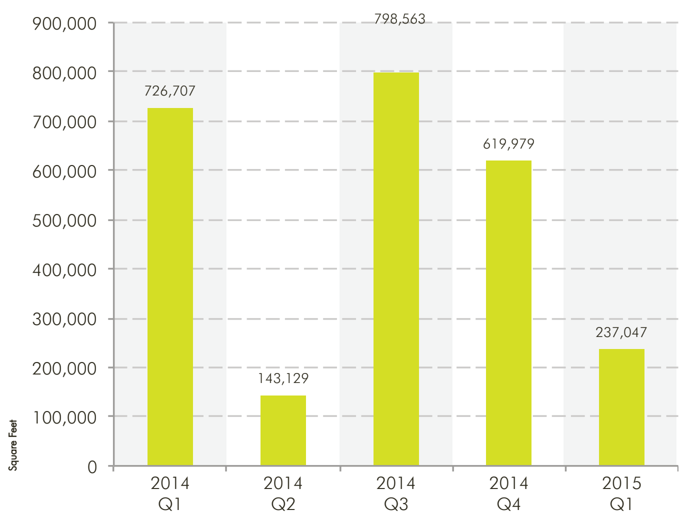
A LOOK AHEAD.

- Despite the slowdown in energy production, leasing activity should remain strong, but not at 2014's record level
- Net absorption will be positive, but may moderate until energy prices return to equilibrium
- Vacancy will decline slowly throughout 2015, ending the year under the 10% threshold
- Rates for prime space will continue to rise, but rent growth overall will level off by the end of the year
- Job creation will continue, but at a slower pace due to layoffs and project delays in the energy sector
- Creative office users will continue to pursue space in the River North Art District (RiNo), Denver's hottest submarket
- Several planned development projects will remain on hold until oil breaks back through the $70 per barrel threshold
- Repositioning of older, functionally obsolete and poorly located B & C buildings will become more prevalent

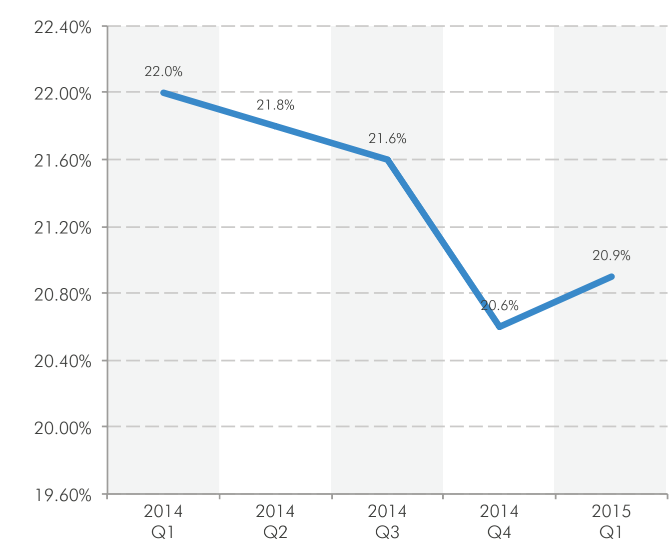
PHOENIX



Net Absorption



Vacancy Rate



TRENDING NOW

The Phoenix office market is still on the rise. After posting its fifth straight year of positive net absorption in 2014, net absorption for Q1 kept pace, posting a modest net gain of 241,665 square feet. Vacancy picked up 30 basis points, increasing to 20.9%, largely due to a 400,000 delivery during the period. The slow but steady decline in vacancy will likely resume in Q2. With leading indicators heading in the right direction, area developers are busy responding to tightening conditions, especially in the Tempe and Chandler submarkets. In all, 4,442,000 square feet of space was under construction at the end of Q1, most of it preleased.

Diminishing supply of larger blocks of contiguous space has bigger tenants committing to build-to-suit deals. Some larger blocks were leased this past quarter in Midtown Phoenix including Banner Health which signed for nearly 200,000 SF for new corporate headquarters at Phoenix Plaza while the Department of Child Services leased 112,323 SF at Phoenix Corporate Tower just down the street bringing occupancy to 72.4% for the Midtown submarket. Spec development is also picking up steam. Just over 1 million square feet of spec space was underway during Q1, with much of that targeted for call and data center tenants.

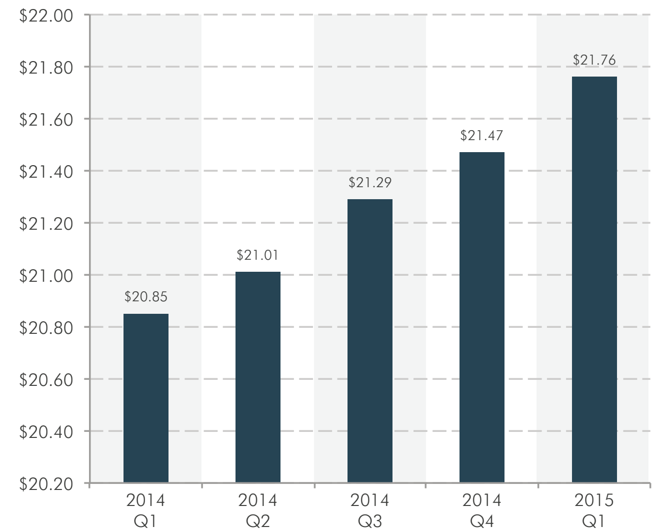
20.9%	$21.76	237,047	81,321,643	4,442,176
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

PHOENIX - TRENDING NOW
(continued)

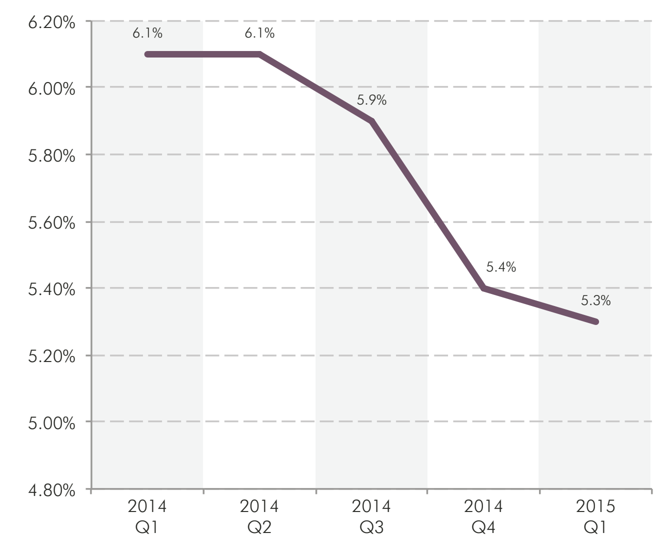
Rents are still trailing previous highs, but that offers good opportunities to area businesses anxious to expand in an improving overall economy. Average asking lease rates have risen $0.77 year-over-year, which is encouraging landlords to re-invest in their properties to make them more competitive. However, free rent and tenant improvement concessions are still in the mix for midsize and large transactions. The average asking lease rate stood at $21.76 in Q1, up 3.7% year over year and 1.3% for the quarter.

The job picture in the Phoenix area is improving, but the unemployment rate, currently at 5.9% remains above the national average of 5.5% but below the statewide rate 6.6%. Slower than expected housing growth has hampered job creation and Arizona's overall economic expansion trails the pace seen in previous recoveries. However, while Arizona's business friendly environment and lower overall cost of doing business continues to attract businesses from California and Nevada, Texas continues to offer more generous incentives, which has put Arizona at a competitive disadvantage.

Average SF Rental Rate



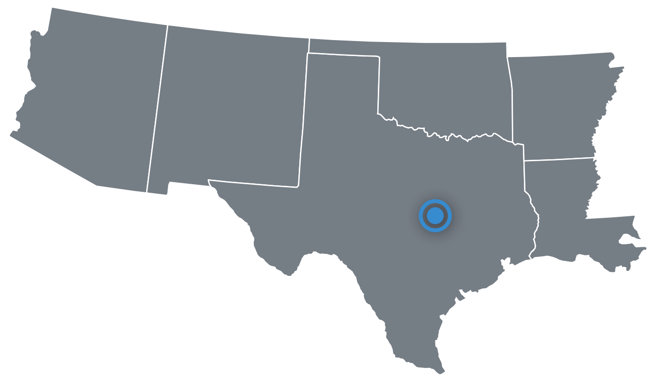
County Unemployment Rate



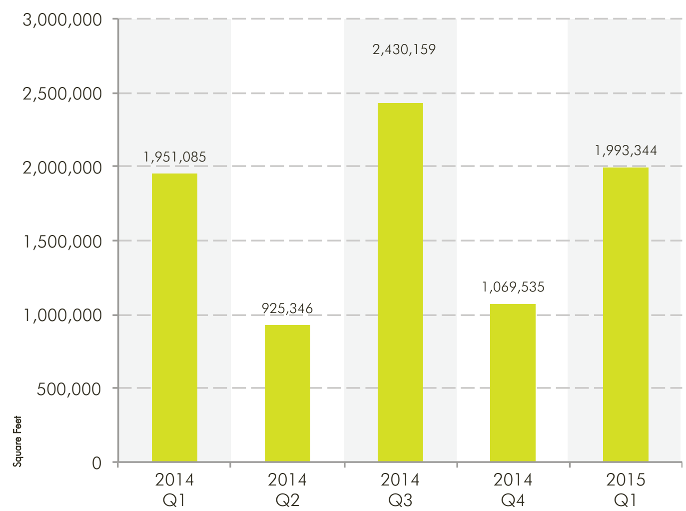
A LOOK AHEAD.

- Leasing activity will accelerate throughout 2015, but sale activity will moderate due to a shortage of quality product offered for sale
- Net absorption should improve by up to 5% in 2015 due to improved economic conditions driven by population and job growth
- Vacancy should drop below 20% during Q2
- Average asking lease rates will continue to increase
- Construction in prime submarkets will increase as demand for quality product remains strong
- Improving housing market should boost job growth throughout the year

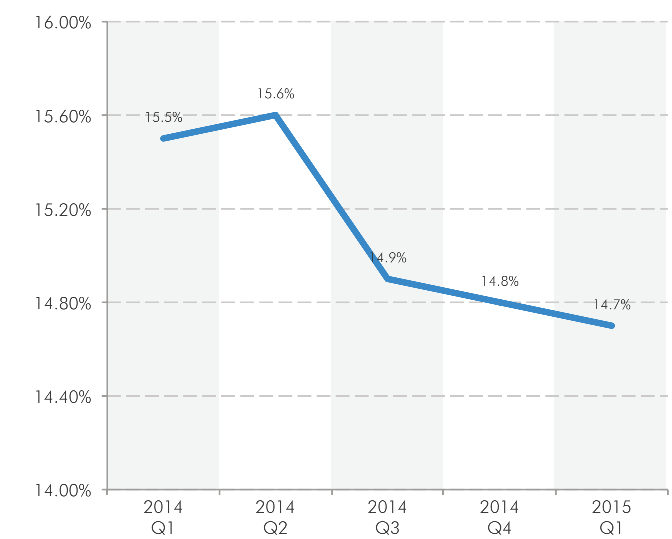
DALLAS / FORT WORTH



Net Absorption



Vacancy Rate



TRENDING NOW

The Dallas/Fort Worth (DFW) economy continues to attract headlines and outperform other major markets. Leading economic indicators portend more good times ahead, but eyes have turned to the potential impact of the dramatic drop in energy prices experienced since June of 2014. Neighboring cities like Houston are definitely feeling the pinch that is yet to hit the DFW market. DFW's unemployment rate has dropped 150 basis points in the last twelve months, and now sits a very low 4.1% Population growth continues to be the key driver. As many as 525 new residents come to the area each day.

Big moves by big companies been in the news for several years, and that trend continues. In the past year, companies like Active Networks and Omnitracs have chosen to move to the Dallas/Fort Worth area as a target for expansion. The two firms plan occupy a total of 300,000 square feet of downtown Dallas office space. The Texas state government continues its pursuit of major employers, attracting them with lower tax rates, room to grow and a good, affordable life style for current and potential employees.

Vacancy moved down 10 basis points to 14.7% during Q1 of 2015, despite new deliveries of 2,467,000

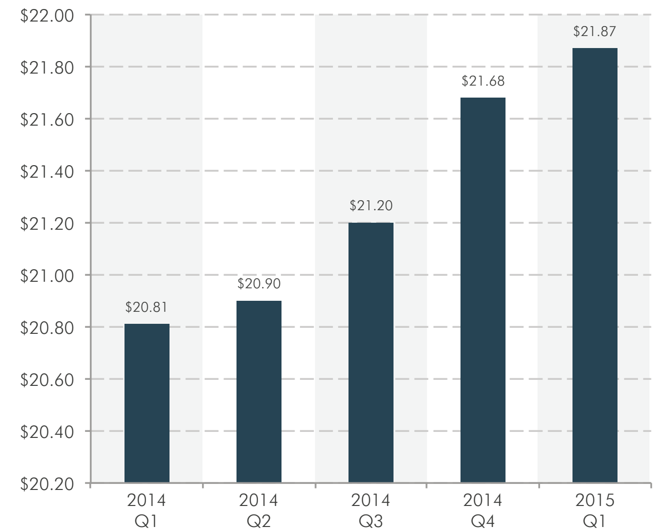
14.7%	$21.88	1,993,344	344,998,073	6,637,696
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

DALLAS / FORT WORTH - TRENDING NOW (continued)

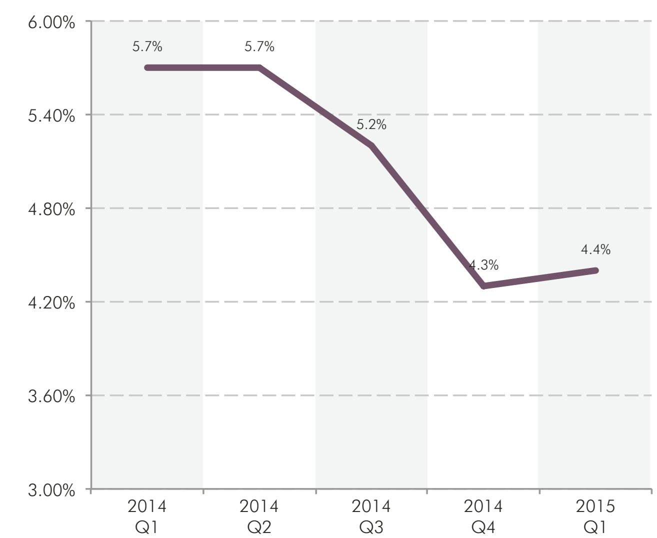
square feet. The construction boom continues, as upwards of 6, 637,000 square feet of office space was being built during the quarter. In 2014, 6,051,000 square feet of new space was delivered and the region is one of the few major markets in the country with a significant supply of land for future construction. Add in the potential for redevelopment and repositioning of existing assets, and it becomes clear that the region can handle growth for decades to come. That fact is not lost on major companies dealing with long term strategic growth plans.

Net absorption came in at a positive 1,933,000 square feet for Q1, over 900,000 square feet in front of Q4's net gain. Suburban submarkets continued to contribute the bulk of that activity due to the availability of first generation space. Over 89% of Q1 absorption occurred in the suburbs. Overall asking rental rates continue to move up, posting a year-over-year gain of $1.06, finishing the quarter at an overall average rate of $21.87. Class A leads the way at an average of $25.44, with class B posting a rate of $19.21for Q1. Leasing activity remained robust for the quarter, including the 57,210-square-foot lease to Teladoc and the 55,257-square-foot lease to CEC Entertainment. While activity is strong across throughout the region, the NE Dallas, Uptown/Turtle Creek, West Plano/ Frisco and downtown Dallas areas are seeing the most activity.

Average SF Rental Rate



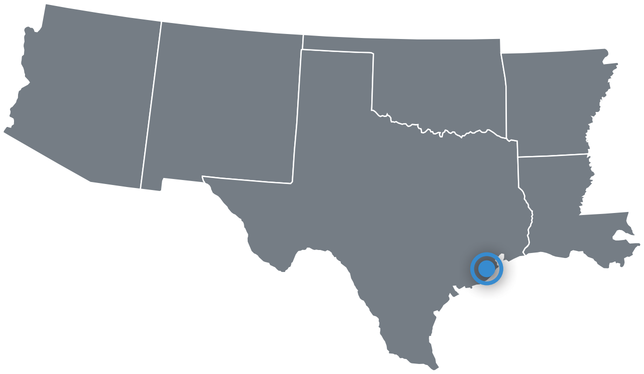
County Unemployment Rate



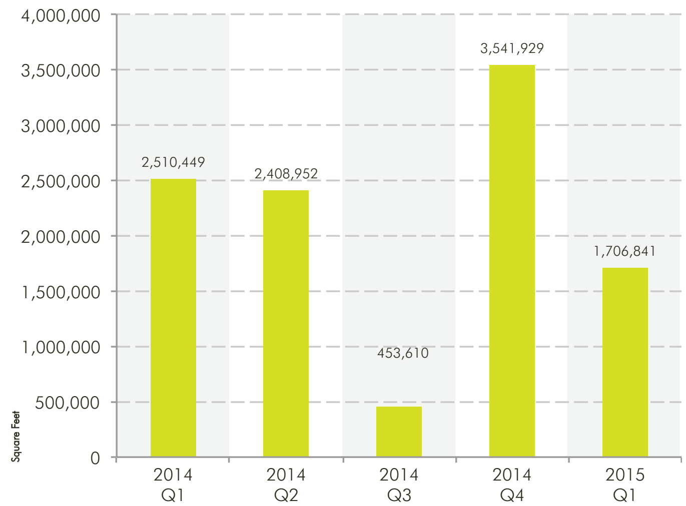
A LOOK AHEAD.

- Overall activity will remain robust and tenants will be facing limited options going forward
- Net absorption should remain at current levels throughout the year
- Despite new deliveries vacancy will decline into next year, with fluctuations depending on the timing of new deliveries
- With major tenants looking for first generation space, developers will keep new projects moving forward
- Owner/user and investor pricing will continue to rise to due short supply of available assets

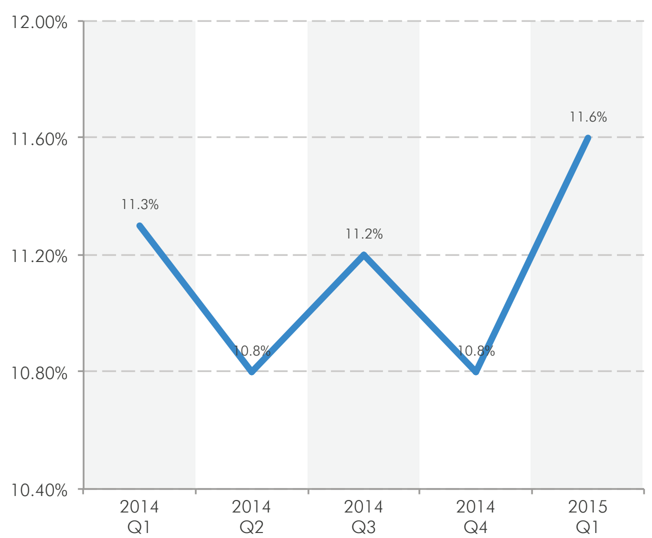
HOUSTON



Net Absorption



Vacancy Rate



TRENDING NOW

World oversupply of oil caused by a variety of factors has energy companies pulling back on expansion plans, curbing budgets for new exploration projects and laying off workers in high-paying jobs. With no end to the crisis in sight, many expect the fallout to intensify over the next several quarters and the office market will surely be impacted.

Construction will likely slow dramatically after years of strong activity. Current commitments for build-to-suit projects will move forward, but speculative projects not yet under construction will likely be delayed. At the end of Q1, just under 15 million square feet remained under construction, a substantial portion of which is preleased.

Despite the energy challenge, the Houston economy is otherwise healthy and post-recession job growth has not only been concentrated in the energy sector. Healthcare, hospitality and professional services have all been big contributors to Houston's current low unemployment rate of 4.3%, which was 120 basis points higher just a year ago. In 2014, the Houston area added over 100,000 jobs. So, even with a significant pullback in job creation, the region will still be among the nation's best job markets. Lower energy costs will also free up capital for other

11.6%	$27.46	1,706,841	286,819,518	14,976,388
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

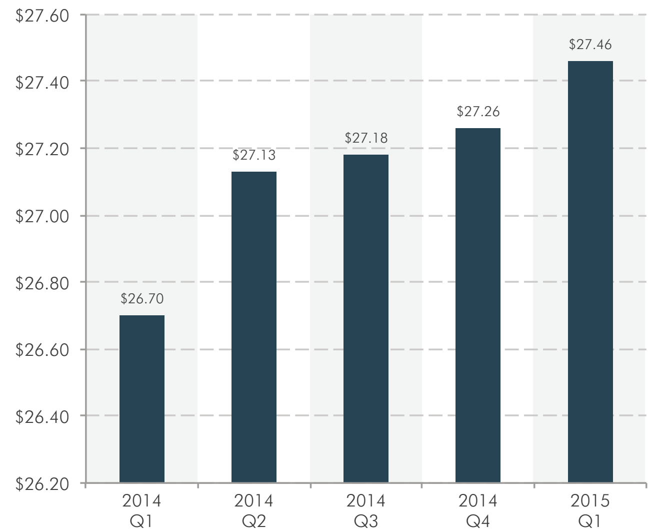
HOUSTON - TRENDING NOW (continued)

uses and the area's expanding population base continues to drive economic growth.

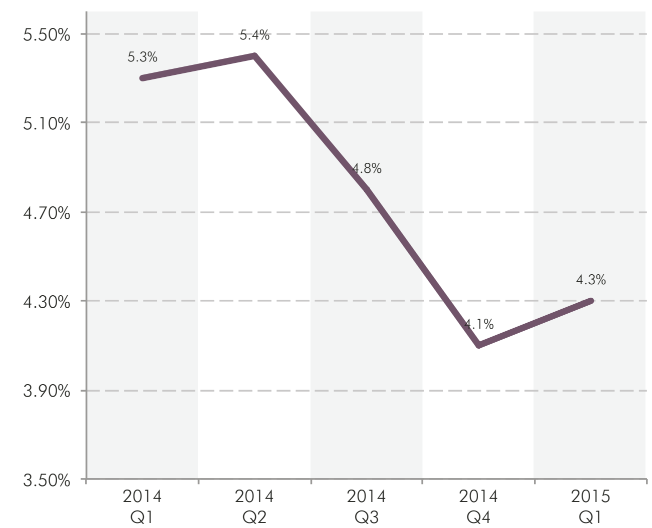
Tenants will once again have more choices in choosing their next facilities, and many will take advantage of the chance to move to higher quality space in new projects. More space offered for sublease by companies shedding excess capacity, will offer additional bargains. Landlords will face tougher times, as the competition for new occupants is intensifying, and renewal tenants are driving harder bargains. Landlords with less rollover in large blocks of space will fare best, as activity is likely to be best for spaces under 25,000 square feet. Average asking rental rates across all building classes stood at $27.46 at the end of Q1, a .7% increase over Q4. However, rates for new space are as much as $15 to $20 per square-foot higher in new projects. That gap is likely to close as developers get more aggressive to get first generation space leased up.

Net absorption for Q1 came in at a positive 1.7 million square feet, with 1.3 million square feet of that total in class A buildings. Activity is strongest in class A space for both suburban submarkets and the CBD, as expanding tenants show a preference for quality and superior location. Vacancy now stands at 11.6% overall, up 80 basis points over Q4 of 2014, but much of that increase is due to the new deliveries that dwarfed those of other major office markets.

Average SF Rental Rate



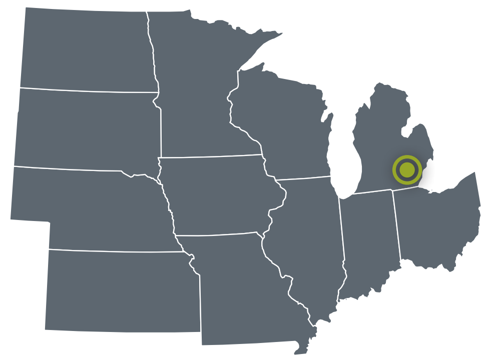
County Unemployment Rate



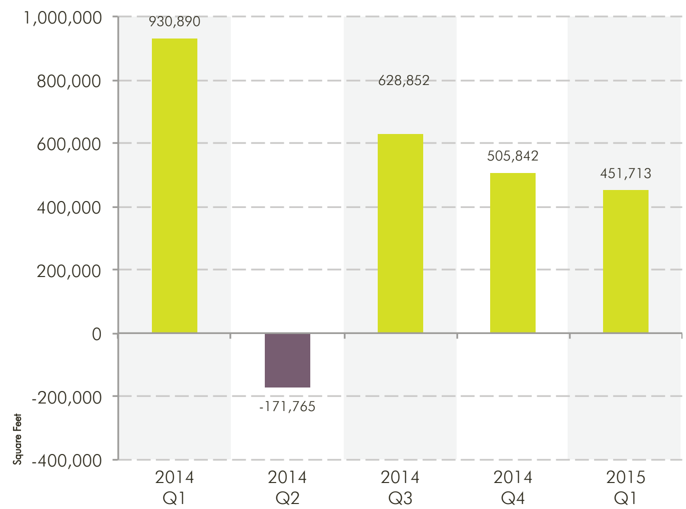
A LOOK AHEAD.

- Net absorption will moderate throughout the year due to the energy sector slowdown
- Vacancy will move back up to the 12% to 13% range over the next two years, as new projects take longer to lease up
- Rising inventory of sublease space will negatively impact net absorption
- Rental rates could decrease by as much as 15% in specific projects
- Speculative development projects will be delayed
- Landlords will be offering more in inducements such as tenant improvement dollars
- Sales activity will decline into 2016
- A strong overall economy will keep Houston growing despite the slowdown in the energy sector

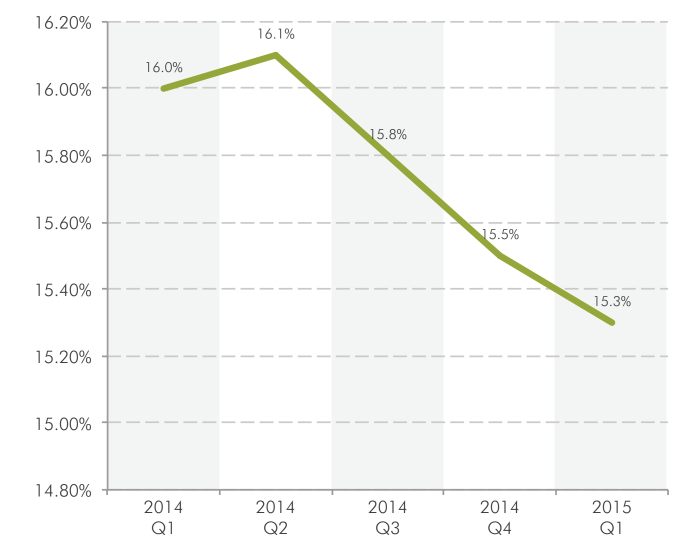
DETROIT



Net Absorption



Vacancy Rate



TRENDING NOW

As the city emerges from the nation's largest municipal bankruptcy proceeding, the office market seems to be headed for better times. Uncertainty over the final terms of the bankruptcy is on the wane, and there is a more upbeat outlook regarding the city's future. City services are being restored, and agreements were reached with municipal pension funds and bondholders.

Absorption was positive in both suburban and downtown areas, and vacancy is moving down to levels seen in other major markets. Q1 checked in at a positive 451,713 square feet of net gain in occupied space, following Q4's total of 504,842 square feet. Overall, the vacancy rate for the region fell from 16.1% in Q4 of 2014 to 15.3% by the end of the Q1, while the downtown market posted a rate of 11.3%. The Auburn Hills submarket still boasts the lowest vacancy at 5.3%, while at the other end of the spectrum, the vacancy rate in the Troy North submarket is 25.4%, but plans to revive the area as more of a "walking community" are in the works. The good news is that many submarkets are moving in the right direction, which is welcome news to landlords after such difficult times. Some of the more troublesome properties are being removed from inventory, which is helping other landlords.

15.3%	$17.99	451,713	195,082,632	573,890
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

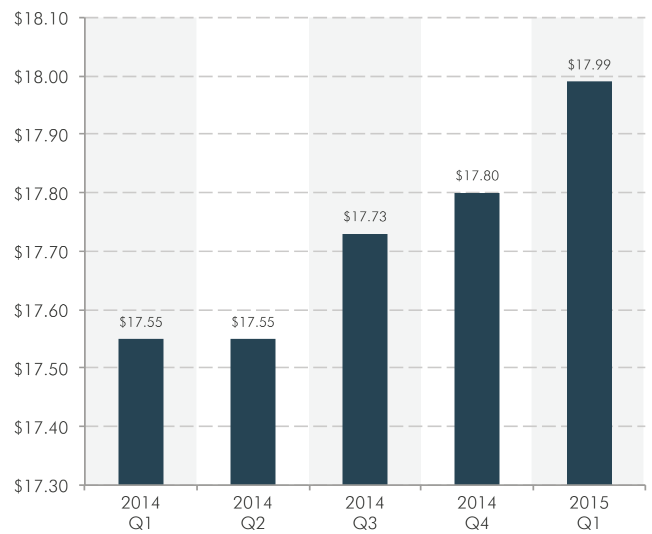
DETROIT - TRENDING NOW (continued)

Leading economic indicators are also looking up. Unemployment rates in Detroit and the State of Michigan have fallen to 6.3% and 5.6% respectively, close the national rate 5.8%. Further improvement in the job picture is expected, as the area shakes the lingering effects of the bankruptcy. Job growth is the key driver of leasing activity and net absorption. Detroit still has a long way to go, but more businesses are recognizing the opportunity to grow and the ability to attract a younger workforce who is seeking a "walking" community. Several high profile moves from suburban markets have helped to keep attention focused on Downtown.

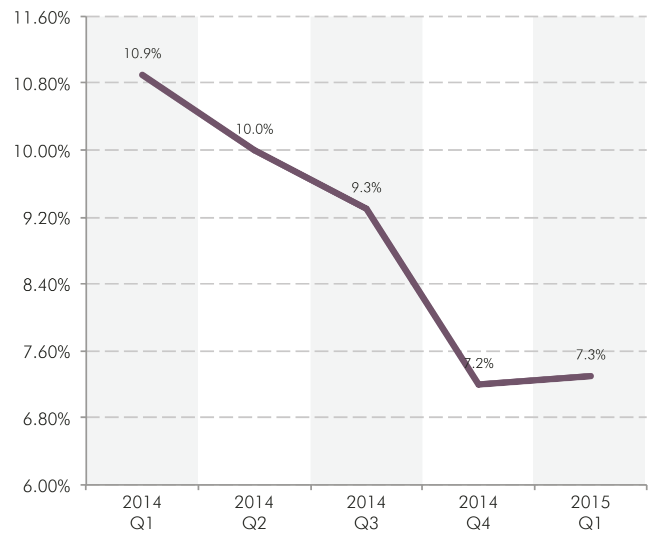
Lease rates have remained relatively flat. For the quarter, average asking rates for Class A space moved up $.10 to $20.62 and Class B rates increased $.27 to $17.82. Suburban and Downtown properties have been similarly affected. However, rates vary widely between suburban submarkets.

Investment activity is also on the rise as large regional investors and institutions clamor for quality product at cap rates much higher than in other metro areas around the US. Bedrock continues to increase its grip on the Downtown submarket. Sales in 2014 include the Dan Gilbert acquisition of The First National building downtown, a 400,000 square feet property, and the $177 Million purchase of Southfield Town Center by 601 W Companies. A close eye will be kept on two of Detroit's landmark properties in the New Center Area will be auctioned off in June of 2015.

Average SF Rental Rate



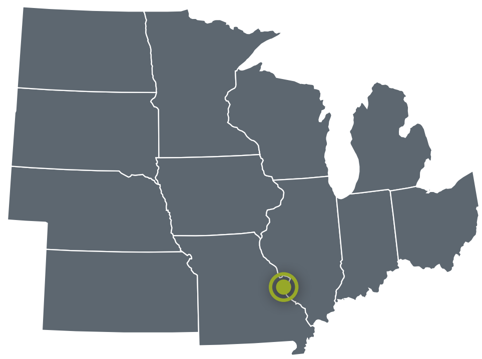
County Unemployment Rate



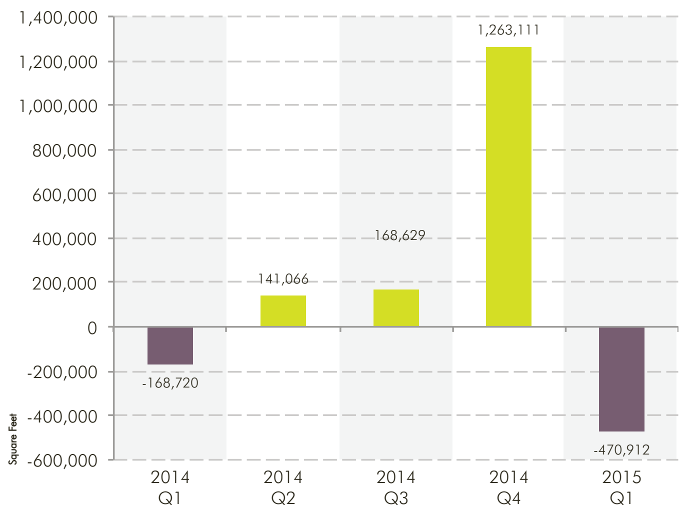
A LOOK AHEAD.

- Net absorption will remain moderate but positive
- Glut of available space will be a continuing challenge for suburban property owners
- Office activity will be focused on the Downtown submarket
- Rents will be flat in the suburbs and rise Downtown
- Speculative development will remain on hold until market metrics improve substantially

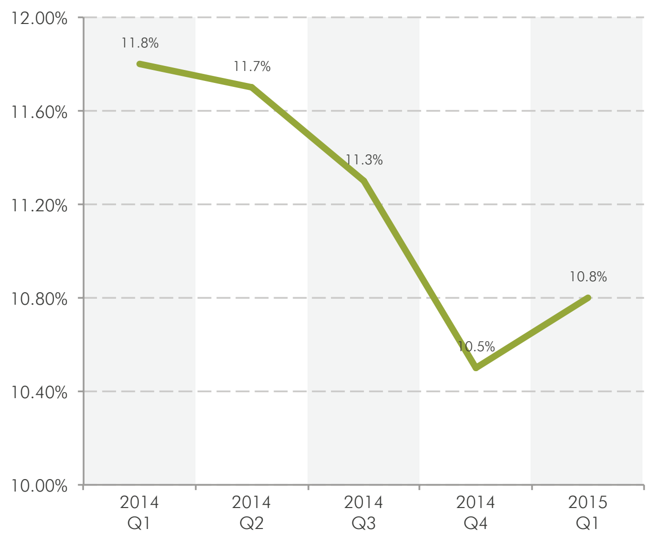
ST. LOUIS



Net Absorption



Vacancy Rate



TRENDING NOW

Boeing's expansions tied to the 777X airliner program is big news for the St Louis office market. The program has already led to the announcements of 700 new jobs, an 88,000 square-foot office lease and another planned lease for 40,000 square feet. The North and Northwest submarkets will continue to benefit from the direct and indirect demand precipitated by Boeings prolific growth. This good news, coupled with already improved conditions, means that the St. Louis office market will continue to grow.

Thanks to consistent employment growth over the past year, net absorption has been positive for the past year. After the biggest quarterly gain in occupied space since 2006 was recorded in Q4 of 2014, absorption turned negative in Q1, giving back 470,000 square feet of Q4's gain of 1,263,000 square feet. However, positive absorption should return to positive territory in Q2.

Vacancy, which stood at 13.0% in 2013, now sits at just 10.8% across all building classes, but that moved up 30 basis points since last quarter. Class A vacancy stands at 9.4% and Class B moved up to 12.8%. Besides the obvious contribution of the Boeing expansion, the healthcare, financial services and professional services sectors are also responsible for

10.8%	$17.86	-470,912	130,221,489	103,000
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

ST. LOUIS - TRENDING NOW (continued)

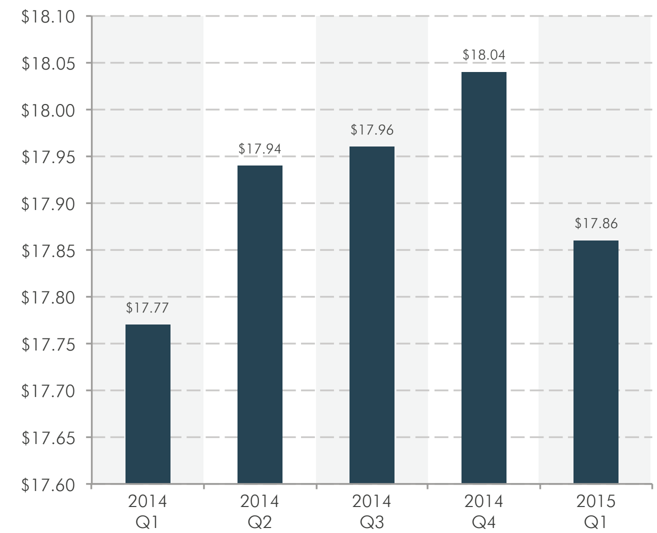
strong job creation, which is the key absorption driver. Riverport Office Park in the Northwest submarket, recently leased 301,000 square feet in five transactions, bringing occupancy to 100% in two buildings.

Average rental rates ended the quarter at $17.86 per square-foot in Q1, up $.10 year-over-year. However, class A rates rose $.16 in Q1 to a new high of $21.92, while class B rates slipped just $.03 to $16.91. Further increases are expected and that will be the catalyst for the return of speculative development activity to the St. Louis market. Developers have been cautious to this point, limiting their interest to the pursuit of build-to-suit deals.

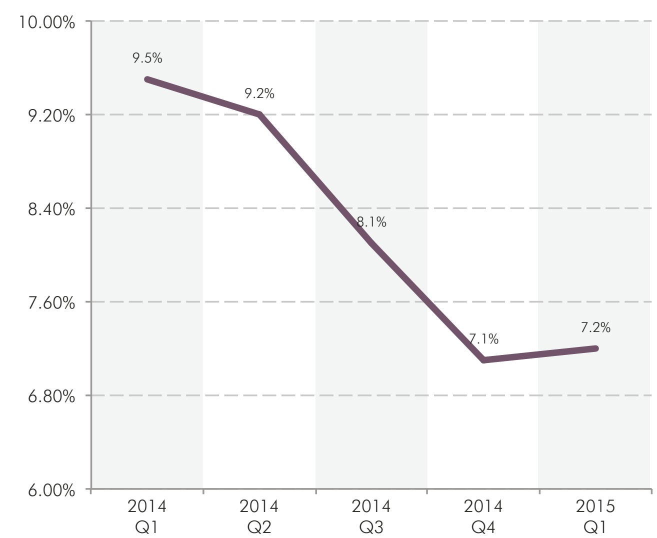
The downtown market will soon be presented with an interesting challenge, as it wrestles with the potential impact of AT&T's vacating of over 1,000,000 square feet at One AT&T Center between 2015 and 2017. Vacancy and net absorption will certainly be impacted in the near-term as the property is converted to multi-tenant use. However, it will offer a tremendous opportunity for tenants of all sizes to upgrade their facilities in the urban core of St. Louis where there is a high concentration of amenities and rental housing preferred by a younger workforce.

Investors of all kinds are active in the area, including institutions frustrated by severely compressed cap rates in larger metro areas. Institutional activity is concentrated on Class A properties, as evidenced by Duke's recent portfolio sale of 6 million square feet of class A space. However, add-value opportunities in well-located Class B properties are attracting more interest as supply of quality product tightens.

Average SF Rental Rate



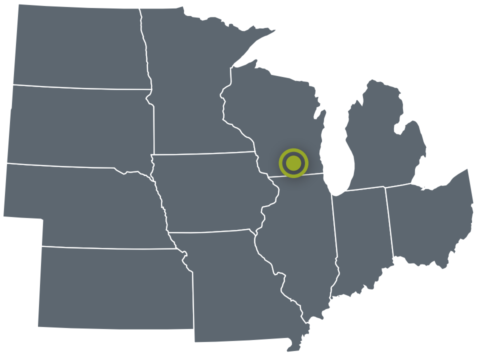
County Unemployment Rate



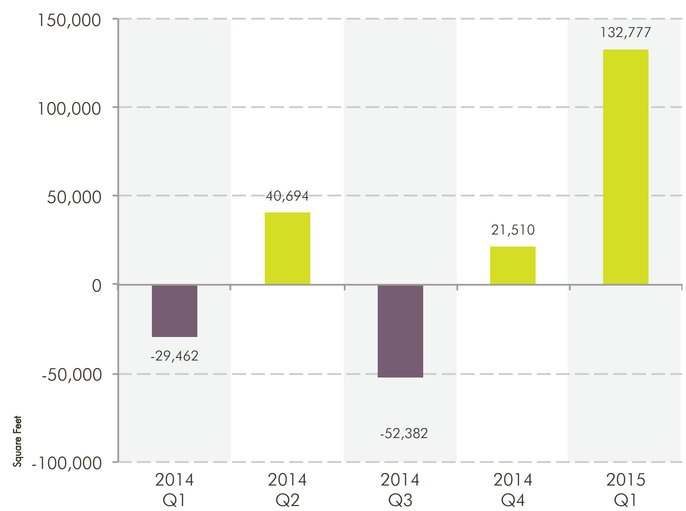
A LOOK AHEAD.

- Strong overall market performance should give net absorption another boost in 2015
- More properties will be repositioned to achieve higher rents and occupancy levels
- Expect net absorption to maintain its current pace throughout the year
- Class A rents will see another year of rent growth
- Class B rents in prime submarkets will begin to see rent growth in 2015
- Reduced choice of larger blocks of space could stimulate new speculative development

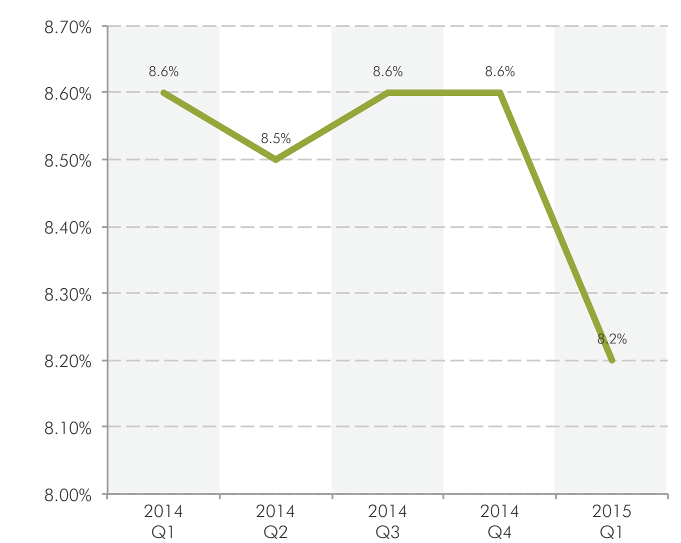
MADISON



Net Absorption



Vacancy Rate



TRENDING NOW

The Madison office market consists of a base inventory of 32 million square feet, including 6.7 million square feet of Class A product in 61 projects, all of which are located in Dane County. Class B space, totaling just over 21 million square feet, makes up the bulk of the inventory in the region. Class C accounts for the remainder of the 1,421 office building total, 89 of which are owner-occupied. By the end of Q1, a 40,000-squre-foot project, which is 84% leased, was the only facility under construction. No product has been delivered to the market in the past four quarters, but as much as 200,000 square feet is likely to get underway this year, including a 60,000-square-foot project targeting the increasing number of tech start-ups.

The lack of new inventory is contributing to the steady decline in vacancy. Just 8.1% of Madison's office space sat vacant at the end of the first quarter, down 40 basis points in just three months. Vacancy in Class B product is running slightly lower at 7.8%, while Class C is above the overall rate at 10.4%. Class A vacancy for the quarter fell 100 basis points to 8.0%. Big contributors to the decline included Realtime Utility Engineers occupancy of 48,354 square feet at 2908 Marketplace Drive and WTS Paradigm

8.2%	$15.07	132,777	32,196,925	40,000
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

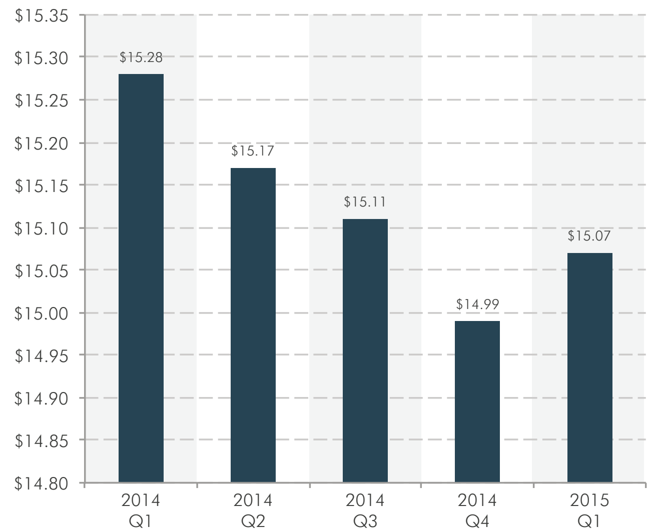
MADISON - TRENDING NOW (continued)

45,000 square -foot move to 1800 Deming Way.

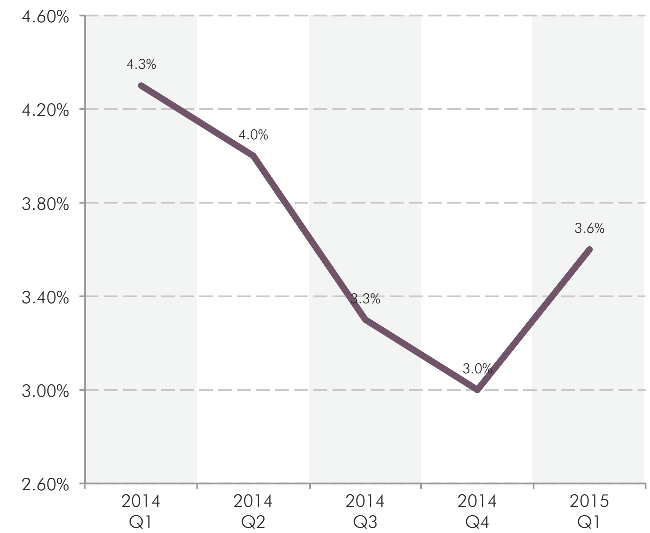
Net absorption turned positive again, finishing Q1 with a net increase in occupied space of 132,777 square feet, the biggest gain since Q4 of 2013. All three building classes contributed to the gain, with Class A leading the way at 69,230 square feet, with Class B adding another 49,243 square feet. The gain was well ahead of Q4 net absorption of 21,510 square feet and it more than made up for the negative absorption in Q1 and Q3 of last year.

Uneven net absorption numbers have held rent growth at bay. While the overall average asking lease rates was up .5% for the quarter to $15.07, rates are $.75 per square foot lower than they were two years ago. This gives expanding businesses a good opportunity to lock in lower occupancy costs for the long-term.
A game changer could be the recent announcement of Vanta's decision to sell its entire 2 million-square-foot portfolio on the West Side, which includes several parcels suitable for office development. That gives expanding tenants another long-term growth option. A more immediate impact of the upcoming sale might be lower rents in the area if the new owners adopt an aggressive posture to stabilize several under-performing assets within the portfolio.

Average SF Rental Rate



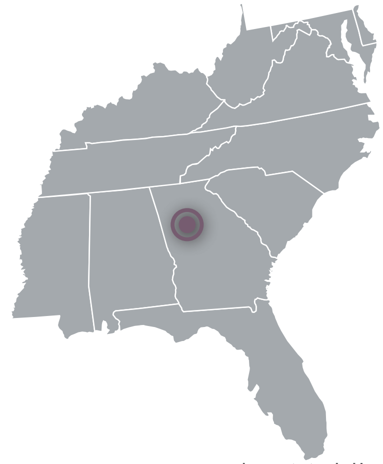
County Unemployment Rate



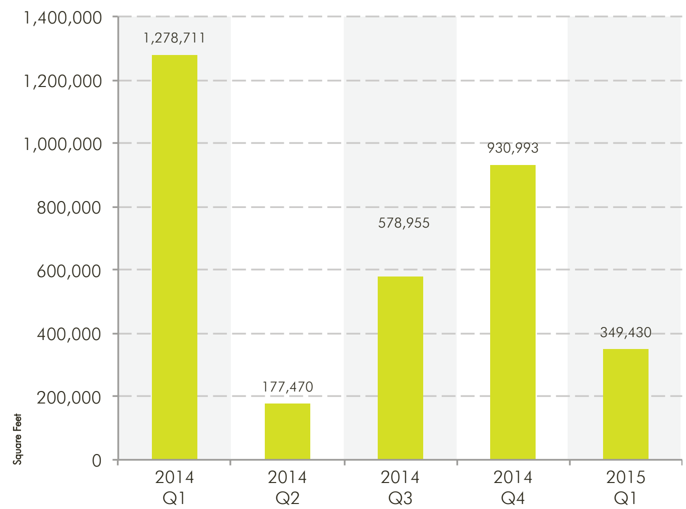
A LOOK AHEAD.

- Net absorption will keep moving up and down as it has for the past two years, ending the year in slightly negative territory
- Lease rates will remain flat for the balance of the year
- Construction activity will pick up by the end of 2015
- Owner/user demand will continue to outpace supply and push sales prices up further
- Vacancy will decline at current pace

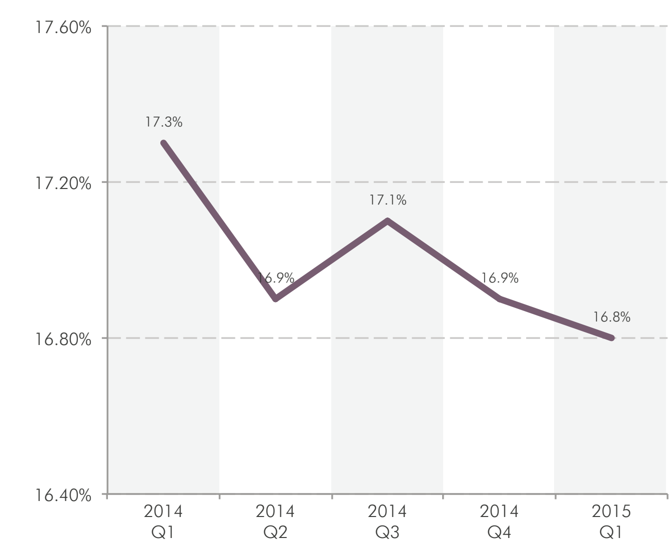
ATLANTA



Net Absorption



Vacancy Rate



TRENDING NOW

Despite ongoing concerns over Europe, the Middle East and nominal GDP growth, the Atlanta business community remains cautiously optimistic. The region's office market continued to improve during the first quarter of 2015. Net absorption remained positive, with primary markets like Buckhead, Midtown and Central Perimeter leading the way. By the end of Q1, the vacancy rate fell 10 basis points to 16.8%. The office sector is benefiting from an economic recovery that has been steadily gaining strength. Strong job growth has Atlanta back on investors' A list, and its hub location makes it a favorite of large corporate users who like the region's population growth and highly qualified workforce. The unemployment rate in the Atlanta area fell to 6.1% by the end of February and the region led the nation in workforce expansion at 4.6% in the past year. In all, over 110,000 new jobs were created in previous 12 months. Investors see that as good enough news to keep bidding up prices for trophy office buildings to all-time highs, as they believe net absorption and rent growth will keep moving up.

Average asking lease rates held steady for the quarter, off just a penny at $20.37 per square-foot. Class A space rents topped $23.79 per square-foot in the same period. Class B rent growth, especially in suburban

16.8%	$20.37	349,430	211,652,482	1,167,793
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

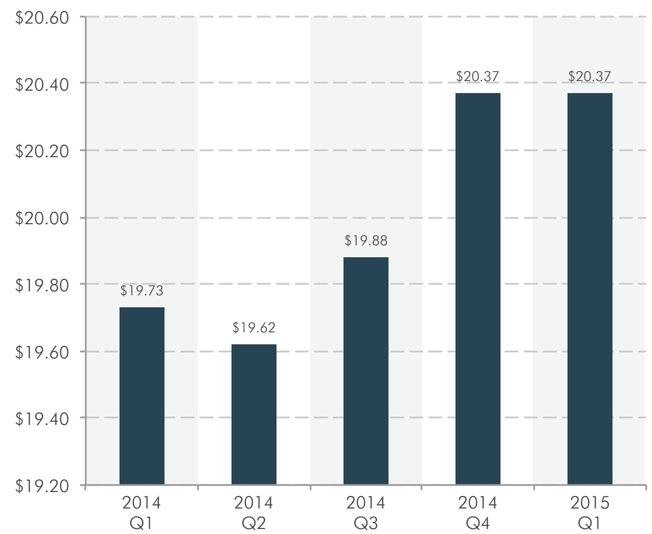
ATLANTA - TRENDING NOW (continued)

areas has not fared as well. As more tenants are looking to move closer to the city center. That has space in submarkets like Buckhead, Central Perimeter and to a slightly lesser degree, Midtown, leasing up faster and at premium rates. For the time being, vacancy will remain much higher in suburban submarkets further out.

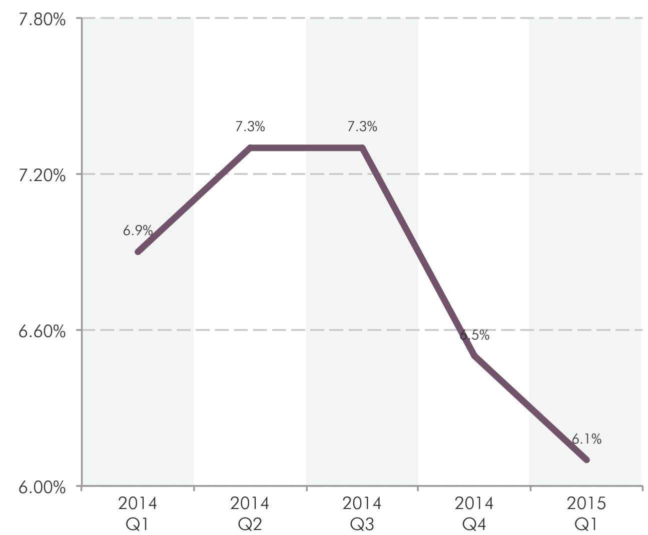
It's no surprise that new office development is concentrated in the Buckhead and Central Perimeter submarkets, and that new product is mainly class A with strong preleasing commitments from the likes of Mercedes-Benz USA, Spanx, State Farm and Newell Rubbermaid, among others. Tishman Speyer's Three Alliance Center is the only class A tower under construction. Other developments underway come mainly in the way of conversions of functionally obsolete buildings into space that appeals more to technology-based companies looking to appeal to a younger workforce.

Rising construction costs present another challenge to the development community. With the simultaneous construction of stadiums for the Falcons and the Braves, and multi-family construction in full swing, the supply of raw materials and skilled labor is running short and costs are running higher. Rents required to justify those increases run in the $33-$38 per square-foot range, but the region is yet to cross the $30 threshold. This will keep some projects on the sidelines for the near term.

Average SF Rental Rate



Metropolitan Statistical Area Unemployment Rate

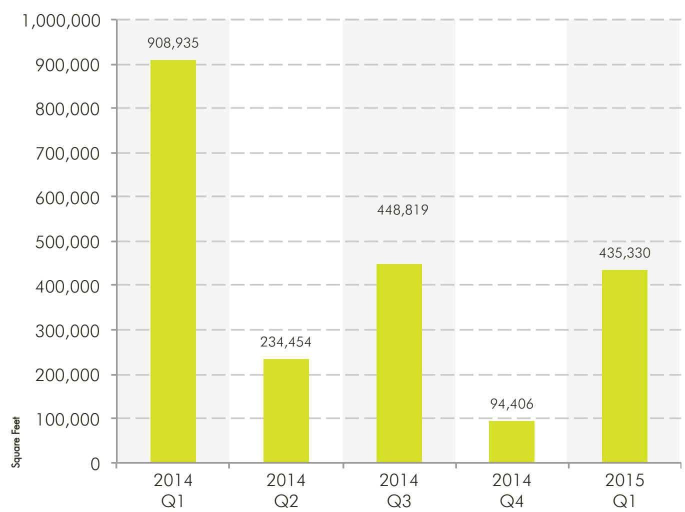


A LOOK AHEAD.

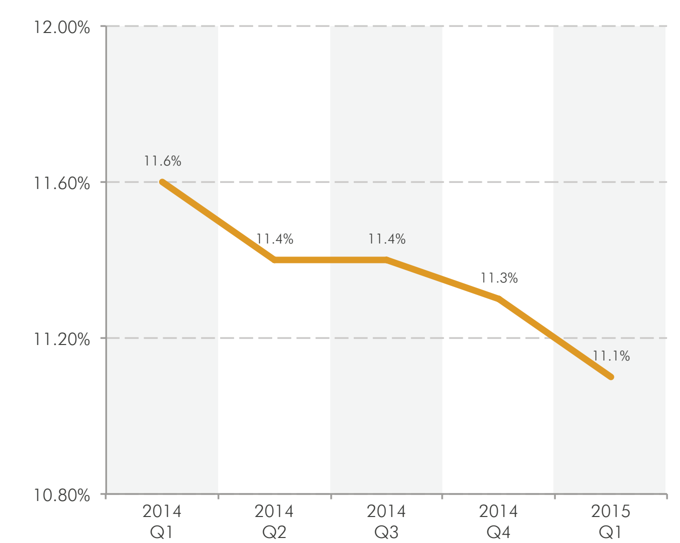
- Expect record prices for trophy office building sales in 2015 as domestic institutions and foreign buyers compete for the limited supply of available assets
- Net absorption, driven by continuing strong job growth, should move up 10% to 12% over 2014 levels
- Average Lease rates should hit $21 per square-foot across all building classes by year end, and as high as $31 per square-foot for class A space in Buckhead
- New work place strategies to attract and retain younger workers will change the way space is designed and used
- Municipalities will push for mixed-use projects, rich in amenities that offer a Live/Work/Play lifestyle

BALTIMORE

Net Absorption



Vacancy Rate



TRENDING NOW

The Baltimore office market, which includes the City of Baltimore, Baltimore County, Howard County and Anne Arundel County, continues to tighten. Vacancy, which stood as high as 12.5% in 2010 has moved down steadily, settling at 11.1% for Q1. Year-over-year the vacancy rate has declined by 50 basis points, with Class A buildings in the Baltimore CBD and Columbia Town Center submarkets leading the way.

Average asking rental rates have stabilized, but rent growth is still not reflective of the overall positive net absorption picture. Year-over-year, the region has seen a rental rate increase of 1.5% or $.32, settling at $21.37 by the end of Q1. However, there are significant differences by submarket, as rental rates hit a high of $27.86 in BWI Anne Arundel for the quarter. Class A space is getting most of the attention, while Class B activity in suburban areas, with the exception of Columbia Town Center, remains sluggish.

Net absorption came in at 4,235,330 square feet in Q1, as compared to just 94,406 square feet last quarter and 448,810 square feet back in Q3 of 2014. Net growth in occupied space is being influenced by the efforts of tenants to use less space by utilizing the latest trends in workplace technologies and mobile

11.1%	$21.37	435,330	136,939,750	764,768
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

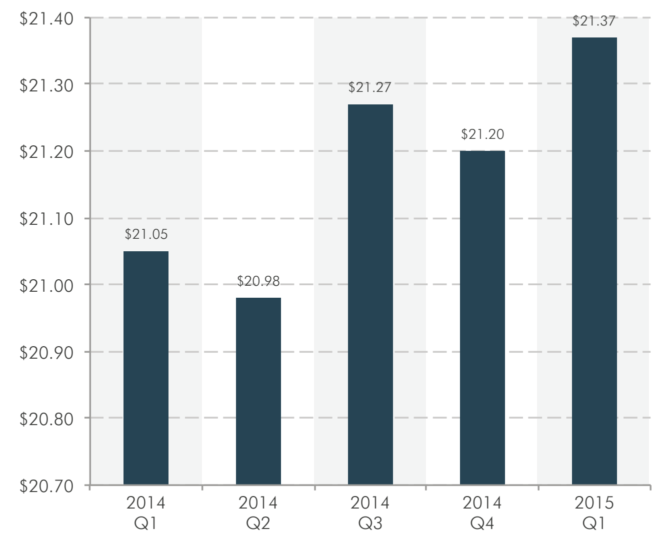
BALTIMORE - TRENDING NOW (continued)

communications. Big contributors to the quarter's absorption were the US Army's move into 125,000 square feet at 312 Sentinel Drive, and OneMain Financial's move into 109,156 square feet in the Legg Mason Tower.

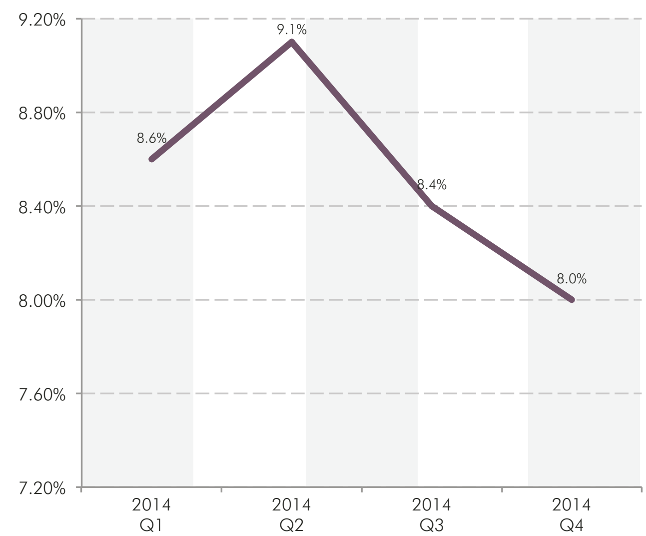
Though the region is not generally known for its pro-business stance, Maryland is currently resetting its business climate. Newly-elected Governor, Larry Hogan, hopes to change the states regulatory mindset to be more customer oriented in order to drive economic competitiveness. With the Governor's new motto, "Maryland is open for business," the state is pushing several new initiatives to focus on economic development and incentives to attract new businesses, which are expected to improve the regional economic picture going forward.

The expansion of the cyber security industry is a major contributor to the expansion of the Baltimore area office market. Ft. Meade and the National Security Agency, the most prominent players in this expanding field, are attracting companies to the region that focus on cyber technologies. As the nation increases its reliance on this field for national security, this trend should provide a needed boost to leasing activity for the foreseeable future. The financial and professional services sectors are also in expansion mode, while the proximity to the nation's capitol continues to provide stability in terms of full time employment. The unemployment rate in the Baltimore area stood at 5.8% by the end of February, on par with the national rate.

Average SF Rental Rate



County Unemployment Rate

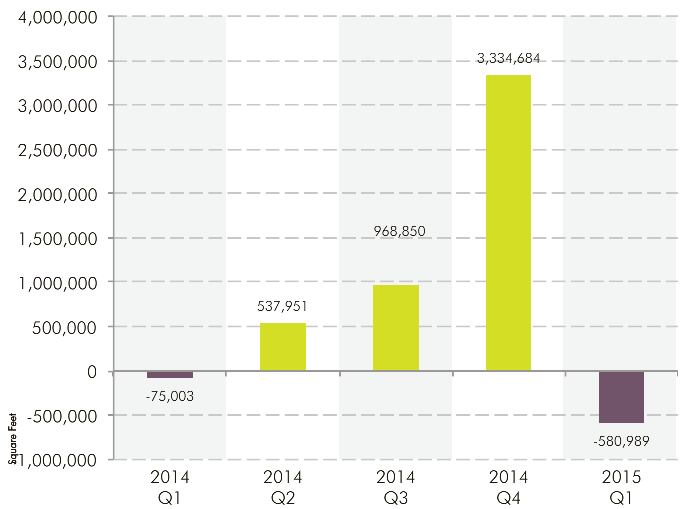


A LOOK AHEAD.

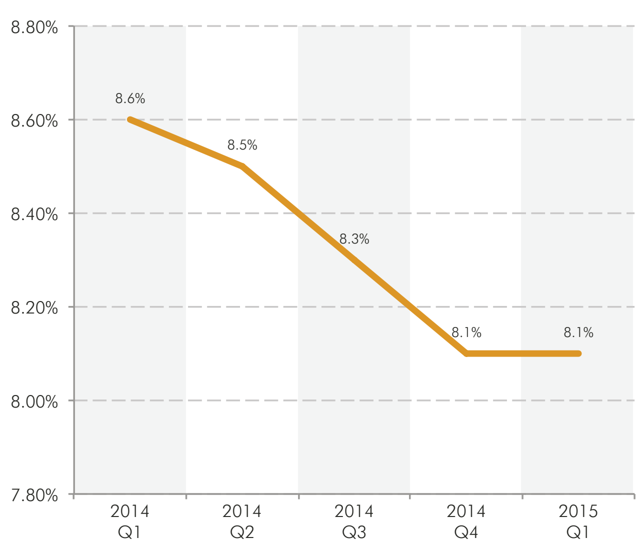
- Net absorption numbers will be up again this year and will get an extra boost from several large leases signed in 2014.
- Vacancy will decline at a slow but steady pace throughout the year
- Asking rents are trending up, but will not move up substantially despite strong absorption
- Development will be limited to prime submarkets that command the highest rents
- Tenants will continue their focus on space efficiency by using open floor plans and leveraging new technologies
- Expansion in the financial, cyber and technology sectors will continue
- Construction starts will increase toward the end of the year as vacancy declines further
- Several high profile sales are expected in the City of Baltimore in the next several months
- Redevelopment projects in Port Covington and Columbia Town Center will secure several large tenants in 2015

MANHATTAN

Net Absorption



Vacancy Rate



TRENDING NOW

The Manhattan office market finished 2014 on a high note, putting the finishing touch on a year of strong net absorption, rent growth and declining vacancy. In Q4, over 3.3 square feet of net absorption was reported. However, as is often the case, big quarters are followed by much softer ones, and that turned out to be the case in Q1 of 2015. The quarter ended with net absorption turning negative to the tune of 581,000 thousand square feet, with virtually all of that in class A properties. J.P. Morgan's move out of 946,674 square feet and consolidations by Morgan Stanley and The Jones Group were the difference makers in Q1. Class B space held its own, netting a gain in occupied space of 150,369 square feet. Big swings in absorption are not unexpected in a market with so many major transactions and substantial construction activity to entice big moves to signature developments.

The average asking rental rate for direct lease space moved up another 1.9% to $57.00 per square foot in Q1, but rates can range much higher in premium properties. Rent growth remains strongest in the Midtown South and Downtown markets that attract TAMI (technology, advertising media and information) and professional services companies that lead the way in job growth. The financial services and insurance sectors, historically big contributors to job growth in New York, are back in positive territory after years of consolidation. The ranks of employed

8.1%	$57.00	-580,989	558,396,287	5,957,552
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

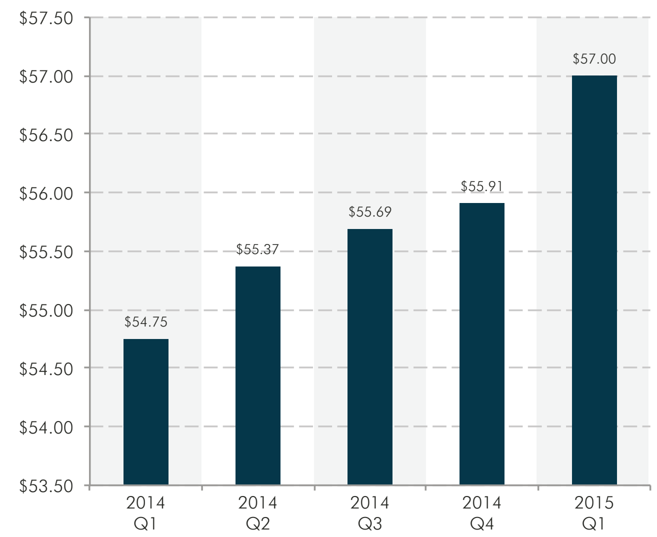
MANHATTAN - TRENDING NOW (continued)

New Yorkers grew by 2.3% in 2014, as compared to the statewide growth rate of 1.3%. New York City's seasonally adjusted unemployment rate has fallen to 6.3%, the lowest since October of 2008.

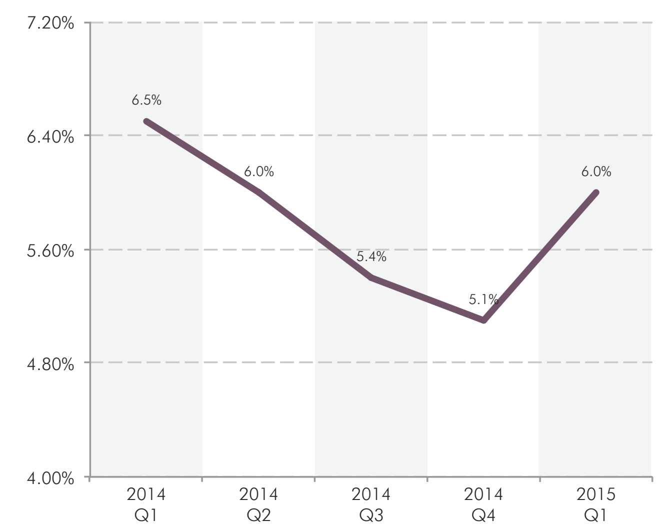
New deliveries were also soft in Q1. Just one building totaling 18,000 square feet was added to the 588 million-square-foot inventory of office buildings in Manhattan. That followed the previous quarter's delivery of two buildings totaling 3,082,000 square feet. However, strong deliveries are expected in the next several quarters, as nearly six million square feet remained under construction by the end of Q1. Major projects underway include the 2,861,000-square-foot 3 World Trade Center building, which is 31% pre-leased; 10 Hudson Yards, a 77% pre-leased, 1,700,000-square-foot property and an additional 473,000 square feet in the Times Square submarket.

Investor demand is off the charts. With foreign buyers in intense competition with domestic institutional players, there is not nearly enough product to satisfy those looking to acquire New York City office buildings. Cap rates are severely compressed, even more so than in other major metro areas around the US. But, the buyers keep on coming and they even have an appetite for non-trophy assets that can be repositioned in a market running short of quality space. Vacancy stands at 8.1%, unchanged from last quarter, but strong anticipated demand from expanding tenants is expected to keep it moving down throughout the year. With rent growth as strong as it is in prime submarkets, tenants are anxious to secure long term leases to contain occupancy costs over the long run.

Average SF Rental Rate



County Unemployment Rate

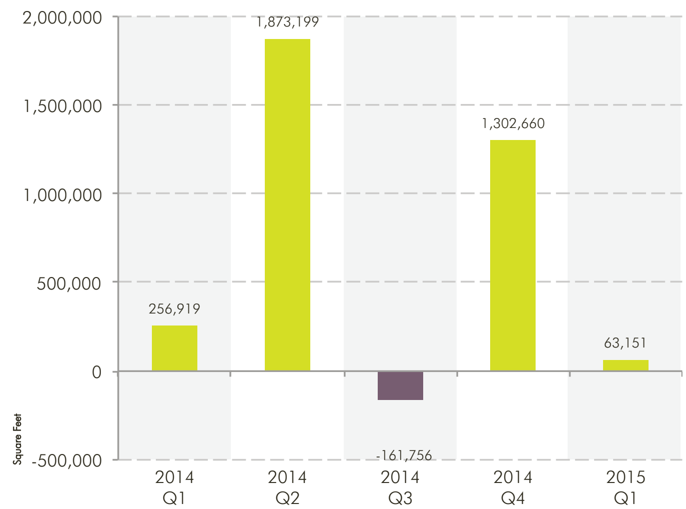


A LOOK AHEAD.

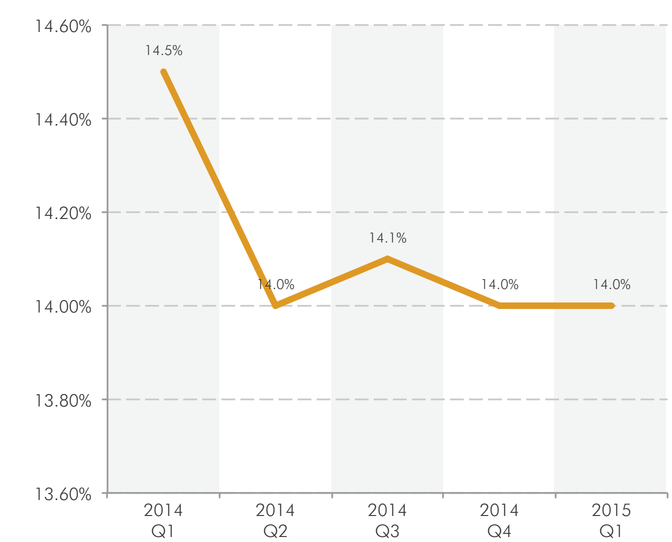
- Net absorption will remain volatile as the timing of moves in and out of major blocks of space will continue.
- Sublease inventory, will remain predominantly in class A properties
- Rents will continue to move up as vacancy declines into the 7% range
- Look for new opportunities to lease in properties being retrofit to current quality standards
- New developments will be mixed-use with residential and retail components
- Cap rates for investment properties will remain compressed in the mid 4% range
- TAMI, professional services, healthcare and financial services will be significant contributors to job growth throughout 2015

NORTHERN NEW JERSEY

Net Absorption



Vacancy Rate



TRENDING NOW

Though the Grow New Jersey incentive program to attract big employers has had its successes, the Northern New Jersey office market is still struggling . Net job growth is concentrated in sectors with a growing base of younger workers, and the aging inventory of primarily suburban Class B office properties generally lacks the amenities preferred by the millennial generation. Their preference is for more of a live/work/play lifestyle, that is best experienced in areas with high concentrations of recreational, retail, entertainment and restaurant venues. Employers, keen on attracting and retaining young, talented workers, are focusing their attention on more urbanized areas that fit this profile. As a result, landlords in more traditional suburban environments are feeling the effects of obsolescence, both in terms of occupancy and average rental rates. There are fewer start-ups to backfill these spaces as new business formation remains slow.

By the end of the first quarter, the average asking rental rate stood at $23.85 across the board. Class A finished Q1 down slightly to $27.19 compared to $21.73 for class B, unchanged for the period. Speculative development remains idle as stronger rent growth and net absorption are required to get new projects out of the ground. New construction has been limited to

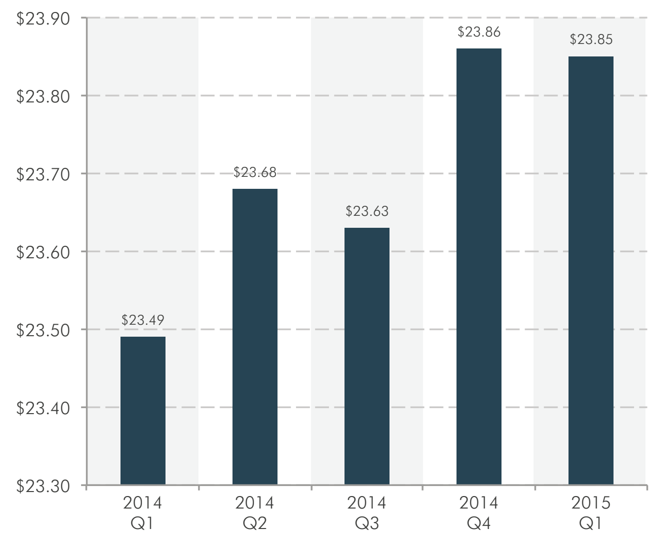
14.00%	$23.85	63,151	360,181,126	1,179,524
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

NORTHERN NEW JERSEY - TRENDING NOW (continued)

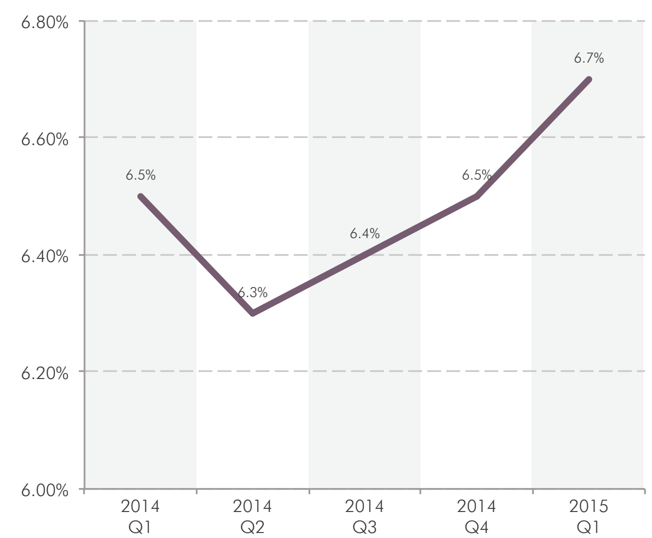
build-to-suit deals and the reposition and upgrade of existing assets. Private equity investors are focusing on value-add properties near amenities and public transportation to take advantage of the new workforce trends, while others who acquired under-occupied properties as distressed assets are selling after lease-up is completed. Institutional investors are still aggressively pursuing stabilized Class A properties, as they are in other major markets across the country.

Net absorption for Q1 was a positive yet disappointing 63,151 square feet, as compared to a strong performance in Q4 of 1,302,660 square feet in the previous quarter and 256,919 square feet on a year-over-year basis. Absorption for the quarter was hurt by a move-out of 474,801 square feet by Pearson Education. Consequently, Class B had a negative absorption total for the quarter of -378,340 square feet. Vacancy held steady at 14%, as it has for the past four quarters. Some suburban markets still have vacancy rates over 20% and landlords are struggling to keep properties at profitable occupancy levels. Until the job picture changes, the decline in vacancy in the suburbs will be stubbornly slow. Class A properties are faring best, especially in areas with strong infrastructure and amenities.

Average SF Rental Rate



State Unemployment Rate



A LOOK AHEAD.

- Lease and sale activity will improve at a moderate pace throughout 2015
- Growth in occupied space will expand by as much as 2%
- Vacancy will decline 1% to 2% with Class A leading the way
- Construction will be limited to build-to-suit transactions
- More interest and activity in the medical office properties
- Sale prices for vacant properties will remain flat
- Asking rents will move up 3% to 5% for Class A
- Asking rents for Class B will remain at current levels for the next several quarters
- Large users will leverage their size to obtain economic concessions from the State of New Jersey

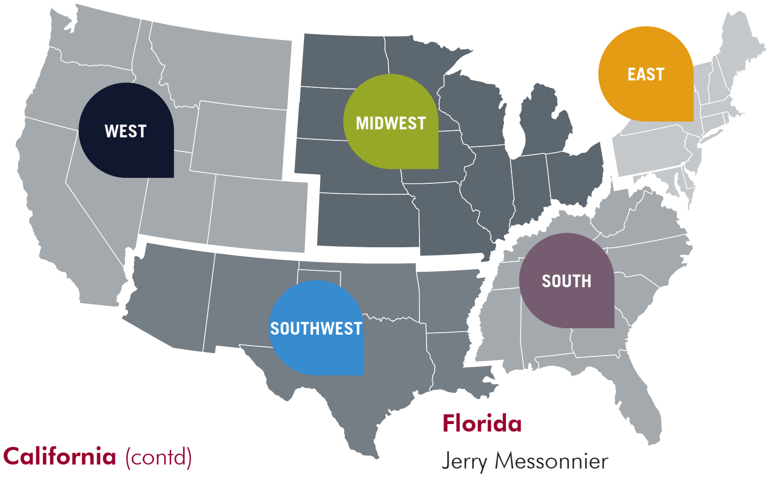
SELECT TOP OFFICE LEASES Q1 2015

BUILDING	MARKET	SF	TENANT NAME
4000 MAC ARTHUR BLVD WEST TOWER	ORANGE COUNTY	177,012	HYUNDAI CAPITAL AMERICA
3100 CUMBERLAND BLVD	ATLANTA	158,331	SITA
395 HUDSON ST	NY CITY	147,670	WEBMD HEALTH CORP
RIVERSIDE COMMONS	DALLAS/FT WORTH	139,323	GE CAPITAL
9601 E PANORAMA CIT	DENVER	136,850	CHARLES SCHWAB
THE WICKFIELD CENTER	DETROIT	134,927	TRUVEN HEALTH ANALYTICS
2 INNOVATION WAY	LOS ANGELES	125,000	SOUTHERN CALIFORNIA EDISON
ROYAL RIDGE V	DALLAS/ FT WORTH	119,611	NEC CORP OF AMERICA
FIVE GREENSPOINT PLACE	HOUSTON	113,801	SWIFT ENERGY COMPANY
3003 N CENTRAL AVE	PHOENIX	112,323	STATE OF ARIZONA - DCS

SELECT TOP OFFICE SALES Q1 2015

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
300 N LASALLE ST	CHICAGO	1,302,901	$652.39	5.1%	THE IRVINE COMPANY	KBS REIT II, INC
HERITAGE PLAZA	HOUSTON	1,145,938	$371.49	5.8%	AEW CAPITAL MGMT	BROOKFIELD OFFICE PROPERTIES, INC
NORTHPARK TOWER CENTER	ATLANTA	1,527,720	$227.79	5.7%	COUSINS PROPERTIES INC	AEW CAPITAL MGMT
3301-3307 HILLVIEW AVE	SAN JOSE	292,013	$1,130.00	6.3%	MORGAN STANLEY	TIBCO SOFTWARE, INC

Nationwide Lee Offices



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The Lee Office Brief

lee-associates.com

Q1

2015

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