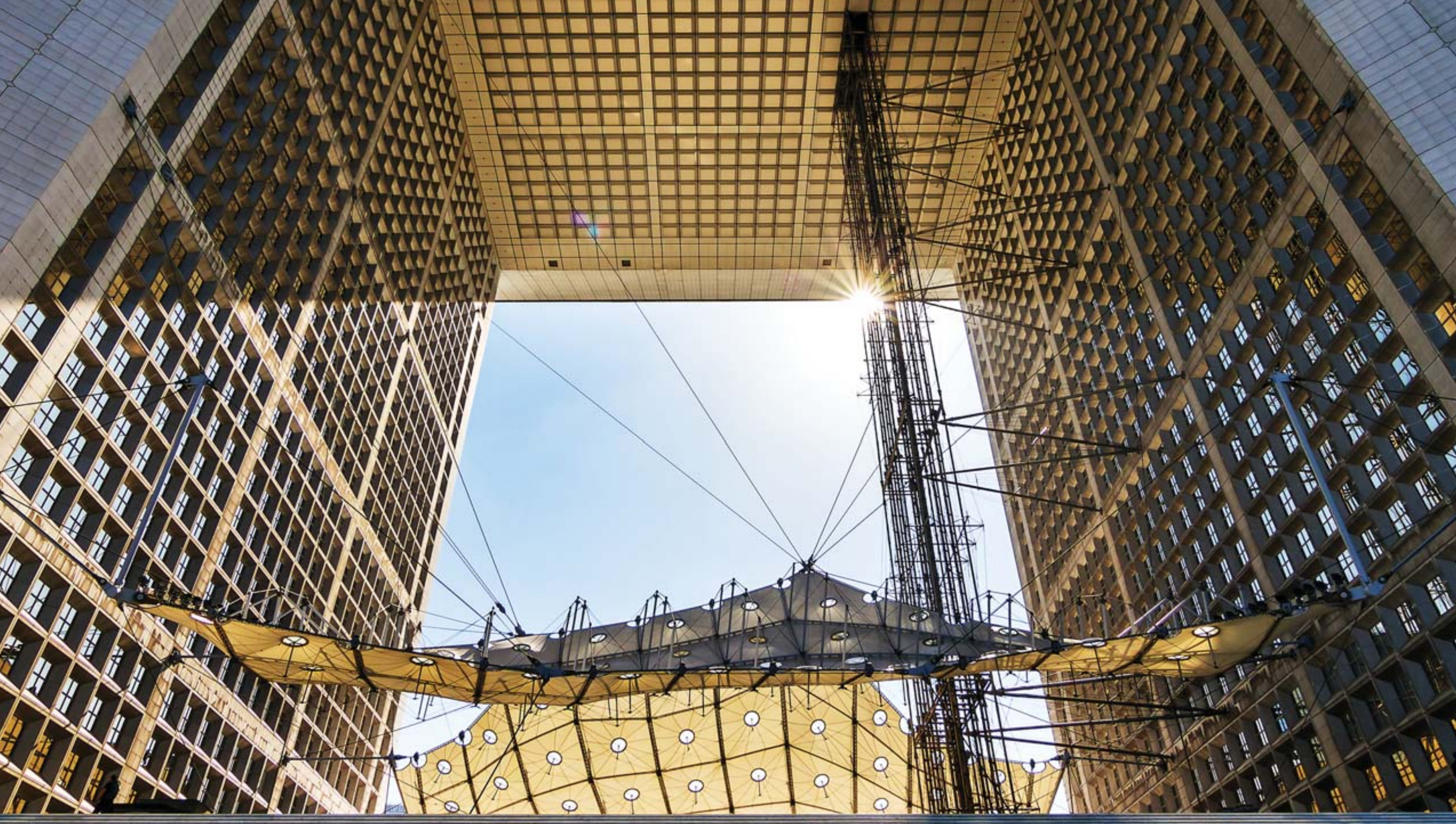

The Lee Office Brief

Q1 2016

Click below. Interactive tabs

1 LEE OVERVIEW

2 NATIONAL OVERVIEW

3 KEY MARKET SNAPSHOTS

4 SIGNIFICANT TRANSACTIONS

5 NATIONWIDE LEE OFFICES

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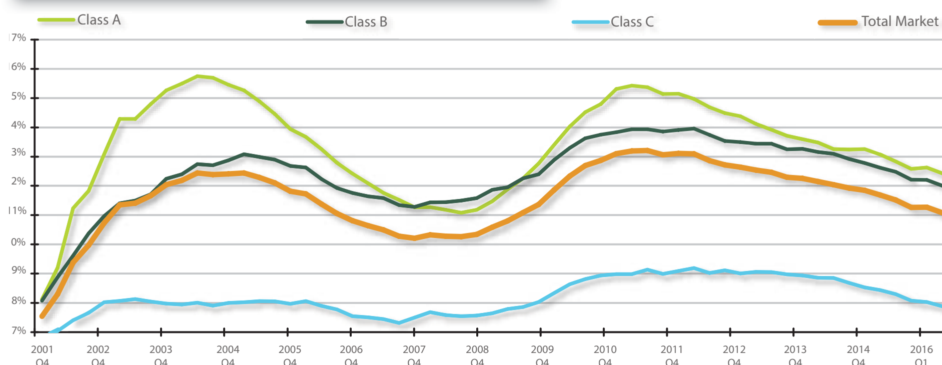
US OFFICE MARKET

OFFICE MARKET STUTTERS IN Q1

The US office market performed well below recent performance levels to start the year. Vacancy remained unchanged after consistent declines dating back to 2011. Net absorption fell to roughly half the totals registered in each of the previous four quarters, average asking rental rates nationwide managed a modest gain to keep a five year run of quarterly increases alive. Several high profile office markets, including New York City, Washington, DC, Northern New Jersey, Chicago and Orange County, CA, all recorded substantial negative absorption in the period.

VACANCY RATES BY CLASS 2000-2015



On the other hand, a handful of other hub markets for the tech industry like San Francisco, Seattle and Raleigh/Durham made big gains in Q1.

ECONOMIC DRIVERS

Click below for info on...

A LOOK AHEAD

GDP GROWTH

EMPLOYMENT

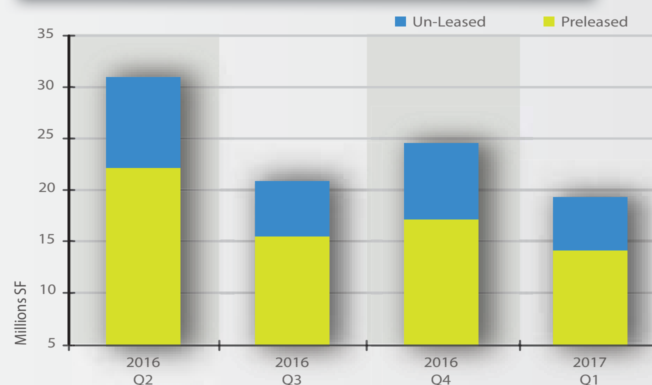
MONETARY POLICY

Just those three markets accounted for over 15% of the nation's office absorption, but more talk of a slowdown in tech sector growth has many experts wondering how that will impact the office sector down the road. Rents have skyrocketed in tech heavy markets and projects under construction are being built with an expectation of further rent growth. The next few quarterly results will come under close scrutiny.

Secondary markets continued to make small gains in terms of rent growth and net absorption. Thankfully, speculative development is confined to a handful of major markets. So, the risk of overbuilding at the national level is minimal for the time being. Surprisingly, Houston had a big gain in net absorption for the quarter, but much of that related to build-to-suit deals that were completed. Unfortunately, a big chunk of that space will end up on the sublease market, which has swelled to more than 10 million square feet in the past several quarters. At 1.5 million square feet of net growth, one of the nation's most troubled markets accounted for 10% of the net absorption. That's not expected to continue in the coming quarters.

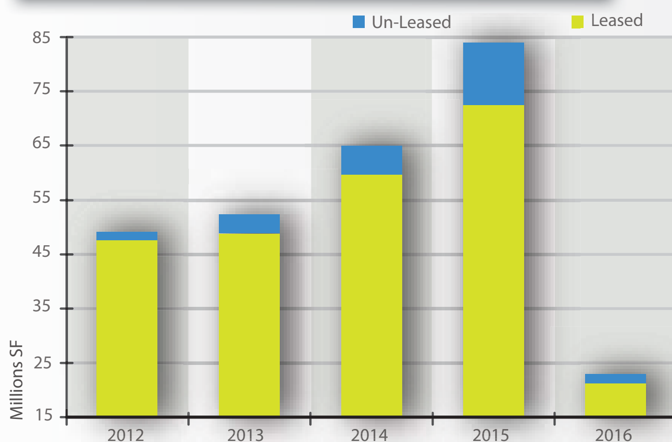
FUTURE DELIVERIES

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

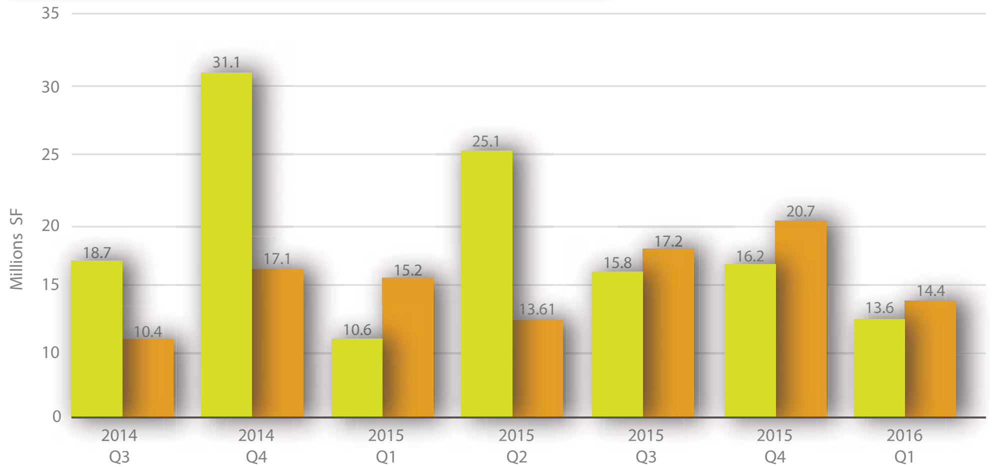


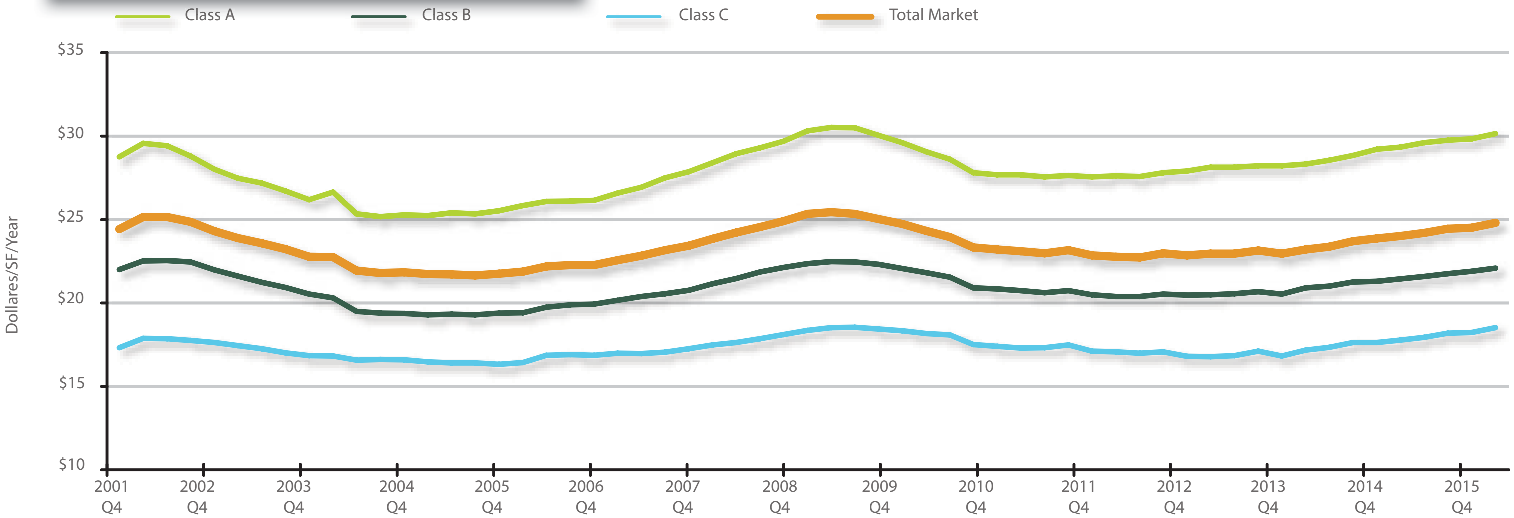
RECENT DELIVERIES

LEASED & UN-LEASED SF DELIVERIES LAST 5 YEARS



Changes in space utilization may also be contributing to the decline in net absorption. The rise of creative space as a preferred alternative for offices users, especially in the TAMI sector (tech, advertising, media and information). The open floor plans allow companies to reduce the amount of space allocated to each employee, resulting in the need for less space, even for expanding companies. Another possible reason for lower absorption is an increasing number of lease renewals, in part due to the lack of immediately available quality space in many markets. Ground-up spec development is nominal in most markets, so many tenants don't see the benefit of a costly move just to change addresses. Also, landlords are making early overtures to existing tenants to renew, and are offering significant incentives to avoid costly vacancy.





Average asking lease rates for the US moved up a nickel, or .2% in Q1 to finish at $23.43 per square foot. While rent increases nationwide are the general rule, bigger markets with concentrations of TAMI and healthcare services firms are seeing the biggest rent gains. Energy markets are not faring as well, and rents are likely to pull back until the energy sector rebounds and the slack caused by under-utilization tightens back up. Rising inventory of sublease space, much of it never occupied, is putting a lot of pressure on landlords in big energy markets like Houston.

In 2016, the level of new construction also fell. In some markets, that will come as welcome relief to owners of older product who might otherwise be faced with higher vacancy and stiffer competition from new buildings. New deliveries fell to 18.7 million square feet in Q1, compared to 25.8 million square feet in the previous quarter and 20.6 million square feet in Q3 of last year. Another 141 million square feet is still under construction. Urban cores are the prime target for developers looking to build mixed-use projects near public transit and entertainment venues. The lifestyle of younger workers continues to reshape the skylines and landscapes across the country and dreams of a home in the suburbs with a minivan and 2.3 kids doesn't hold the same appeal as it did for former generations. Institutions and private investors both large and small are still chasing a short supply of office product for sale. Cap rates remain compressed and trophy assets are trading hands below 5%. If rent growth slows down, which it might soon do, underwriting is going to get tougher, as buyers won't be able to plan on big bumps in net operating income that will strengthen long term IRR's. Borrowing money is getting tougher, as well. Foreign buyers are still hungry for US assets, and that is likely to continue given increasing concerns over a weakening global economy. Concerns over preservation of capital often trumps return on capital as conditions deteriorate further in other parts of the world.

A LOOK AHEAD

The US office market has lost some momentum to start the year, and a couple of good quarters of net absorption will be needed to quell growing concerns over a market slowdown. Employment growth across the US had been favoring office-using businesses, but lately, most of the new jobs have been in retail trade and eating establishments, which do little to support the office market. Net absorption drives rent growth and new construction, and job growth is the primary driver of net absorption. If a slowdown in tech hiring materializes in a significant way, the office market could suffer as a result.

Wage gains have also been disappointing, and there are still too many jobs being offered on a part time basis, which could be a sign that decision makers are switching to a more defensive strategy.

The good news is that the office market is not overbuilt, and only a few markets are in any real danger in this regard. That will go a long way to softening the impact of slower growth in the US due to concerns at the geopolitical level. Look to job and wage growth at the sector level for forward guidance on the direction of the office market. As we reported last quarter, it just can't be denied that the daily economic narrative has become more negative. The psychological effect of that shift is what will be keeping the commercial real estate industry up at night in 2016.

GDP GROWTH

GDP, the key measurement of the total output of US goods and services continued to run at a slow pace in the first quarter of 2016. The first estimate of Q1 GDP growth, according to the GDP Now index, is a dismal .3%. Persistent concerns over political and economic issues around the world are keeping optimism here at home in check. The year started with a big selloff in the US equities markets. Fortunately, most of those losses were recovered during Q1. Three weeks into Q2 2016, the Dow was back above 18,000 and the S&P recovered most of its losses, despite a disappointing earnings season. Volatility in equities has become commonplace as jittery investors react quickly to anything and everything. GDP performance hasn't helped to ease those concerns. The final estimate of GDP for Q4 indicated just 1.4% growth, which didn't help change the economic narrative. The US economy grew by only 2.4% in 2015, and the poor Q1 number makes it unlikely that 2016's growth trajectory will improve.

QUARTER-TO-QUARTER GROWTH IN REAL GDP

Consumer spending, which accounts for roughly 70% of GDP, is the main culprit. US consumers are keeping a firm grip on their wallets, as their outlook for better times remains hazy. Retail sales, a large component of consumer spending, declined by .4% in January, was unchanged in February and fell by .3% in March. Persistently weak wage growth may be partly to blame. Income growth is running close to the rate of inflation, which is still under the Fed's target of 2%. So, workers just don't feel like they are getting ahead, and that makes them more cautious about making the big purchases that will give consumer spending the shot in the arm it needs. Instead, they continue to pay down existing debt to reduce their exposure to financial troubles down the road.

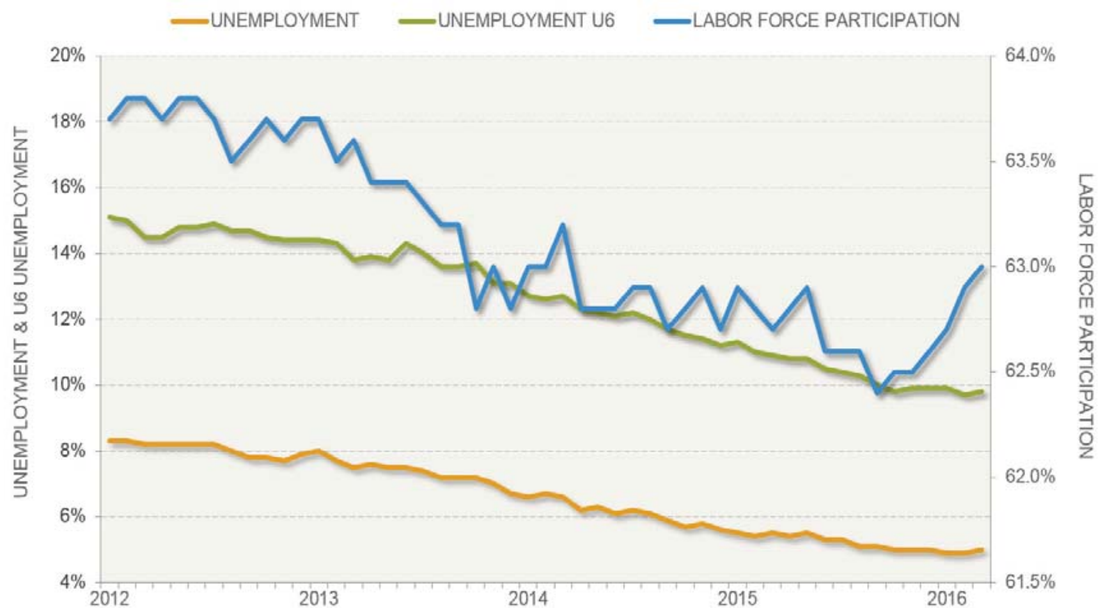
Net exports, another key component of the GDP equation, have been hurt by the US dollar's strength against other currencies. US goods and services are getting more expensive abroad and the impact to US companies is measurable. In Q1, that impact was slightly abated, as the dollar did lose some ground against other major currencies after the Fed signaled a slowdown in the frequency of interest rate adjustments. Though, significant currency fluctuations are likely to remain a persistent thorn in the side of export growth, as economies around the world continue to play the devaluation game to make their goods and services more attractive.

EMPLOYMENT

Job growth picked up in Q1 after showing signs of slowdown in the latter half of 2015. By the close of Q1, the unemployment rate stood at 5%, up 10 basis points since February. Job gains for the quarter were strongest in retail trade, construction and healthcare. Hiring in the manufacturing remained in a funk, a direct result of a decrease in manufacturing activity. The key manufacturing index compiled by the Institute of Supply Management (ISM) has spent most of the past year in negative territory.

The high proportion of part time positions may give the numbers a boost, but they aren't doing much in terms of helping the middle class get ahead. Over 6 million workers who prefer to work full time are still stuck in part time jobs. The U6 unemployment rate, which includes roughly 6 million of such workers, ended March at 9.8%, up 10 basis points from the previous month. Concerns over slowing domestic growth and the prospect of recessions abroad is prompting employers to hire part time and temporary workers. The cost of health care pursuant to the Affordable Care Act (ACA) is also contributing to part time employment problem, as employers are inclined to hire workers just under the 30 hour per week threshold that would require them to provide health benefits.

NATIONAL UNEMPLOYMENT



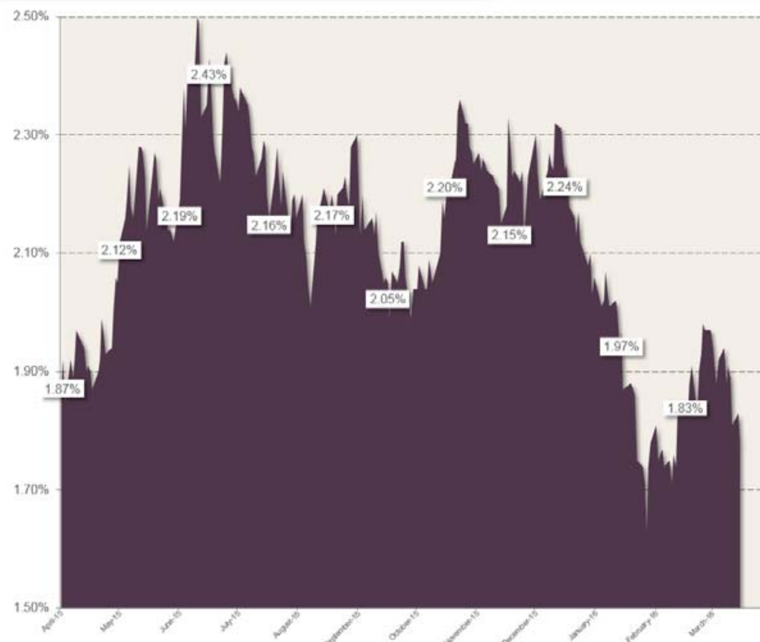
The Labor Participation Rate, the metric that measures the percentage of those eligible for employment between the ages of 16 and 64 who are currently working is also stagnant. Sporadic job growth and the early exit of Baby Boomers, who are retiring at a rate of 10,000 per day, have combined to keep just 63% of potential workers in active production.

Wage growth is another problem that has dogged the US economy since it began recovering back in 2010. While the general unemployment rate has fallen to 5.0%, full-time, high-paying jobs are in short supply. And, many of those positions sit unfilled due to a lack of qualified candidates. Without a good boost in wages, consumer spending, the main GDP driver, will remain stagnant. Layoffs in the energy sector has not helped the job picture, either. Thousands of high wage positions are disappearing and it may be years before the energy sector recovers enough to see those jobs return. The jobs being lost are generally full-time, and that only makes things worse. The oil industry continued its belt tightening in Q1 idling more wells and slashing capital expenditure budgets. So, further job losses are expected.

MONETARY POLICY

Fed Chairperson, Janet Yellen and her Board of Governors have tamed down the rhetoric regarding multiple rate hikes in 2016. Back in December, when they finally pulled the trigger on an initial rate hike, it had little immediate effect here at home. But, it did push up sovereign bond yields on dollar-based sovereign debt. Needless to say, central bankers around the world expressed their displeasure with the move and have since been warning the Fed that further rate hikes in the short term will be harmful to the global economy. The Fed's move ran counter to the actions of other central banks that have been engaged in aggressive quantitative easing and lowering benchmark rates into negative territory. The Fed's action reduced uncertainty about the policy direction in the beginning, but now Ms. Yellen is singing a more cautious tune.

TEN YEAR US TREASURY YIELD
IN PERCENTAGE



So, decision makers everywhere look to be heading back into the fog when it comes to predicting the cost of capital going forward.

Real estate borrowers have been relieved to discover that the Fed's initial rate hike had little effect on mortgage interest rates. Long term financing is still cheap and demand to acquire commercial real estate has been unaffected, thus far. Cap rates remain compressed with no clear sign of a change in direction, but there is a lot more talk about that now than there was a few months ago. If the Fed follows through with more rate hikes soon, the possibility of higher cap rates will become very real indeed. Even a 50 basis point move up would have a massive impact on property values. Rents, even in the fastest growing markets are not climbing nearly fast enough to bridge that gap.

The yield on 10-Year Treasuries moved back down late in the year, then up again before settling at around 1.85% by the end of the quarter. Many attribute the downward pressure on yields to a "flight to quality", as foreign capital pours into T-bills as a safe haven. If that is true, then real estate borrowers will benefit directly, as most commercial real estate mortgage rates are based on a spread over the 10-Year.

GLOBAL ECONOMY

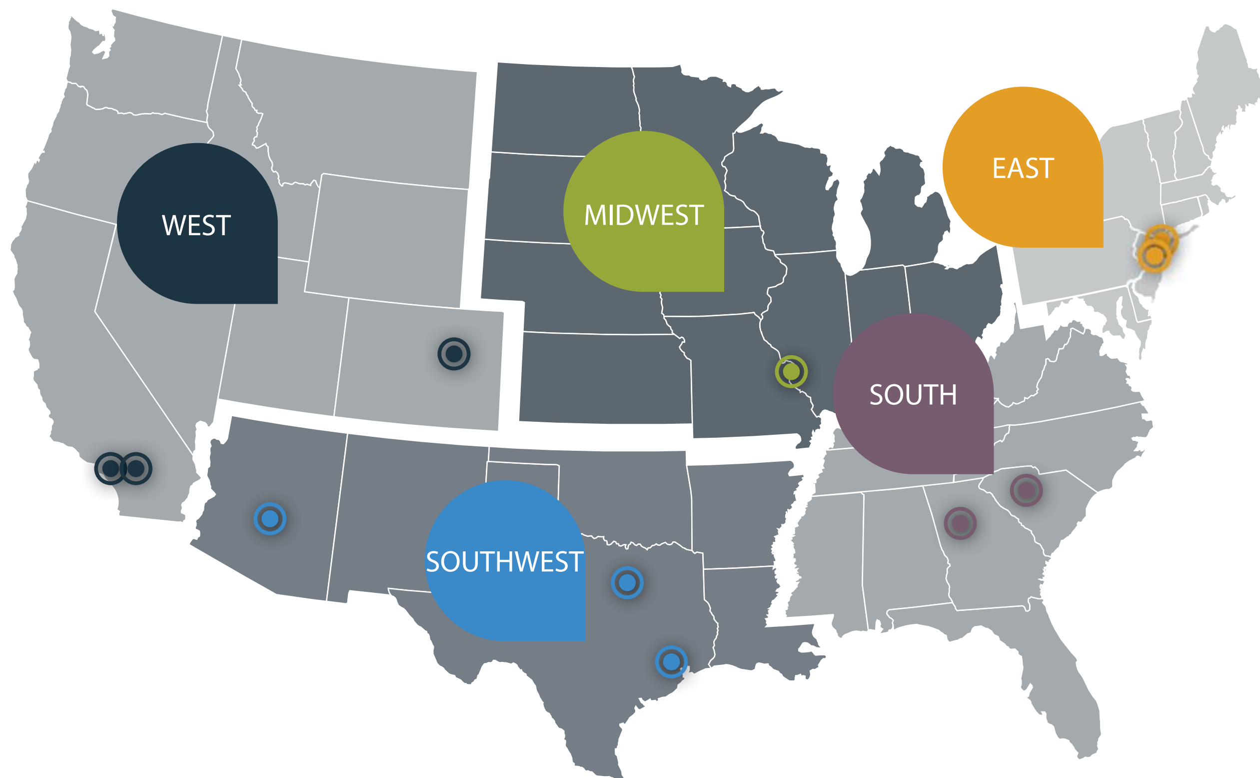
The global economic outlook continues to look troublesome. Whether the topic is the European Union, emerging markets, energy-producing states or the manufacturers of the world's goods, the news is mostly bad. Global growth estimates keep moving down and several countries are in recession, especially countries like Brazil and Venezuela that depend almost entirely on the export of raw materials and oil. Europe's political union goes from one crisis to the next it seems.

Without having the authority to enforce fiscal activity, EU leaders and European Central Bank have been ineffective in addressing skyrocketing debt around the system. Calls for austerity from nations swimming in debt been largely ignored, and the recent refugee crisis is exacerbating economic problems in Southern Europe where the flow of refugees from the Middle East is heaviest. Border enforcement issues are resurfacing as a result of the staggering cost of providing hundreds of thousands of displaced citizens, mainly from Syria.

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

Oil-rich Middle-Eastern countries, including Saudi Arabia, are issuing sovereign debt and burning through cash reserves to cover revenue shortfalls precipitated by the falling price of oil. Even China is issuing sovereign bonds to help it cope with its massive transition from total dependence on the exportation of manufactured goods to a more consumer-based economy that can be self- supporting. Gone are the days of double-digit economic growth in the world's most populous country.

Despite all these concerns, the US economy is still growing, but just above stall speed, a fact not lost on major corporations that are already facing a slowdown in profit growth. Many of the nation's biggest companies are boosting share prices by buying back their own stock and slashing costs, rather than by increasing revenues. Even commercial real estate markets continue to grow at a steady and healthy pace. Rents are rising, vacancy is declining and new buildings are being delivered at a pace that limits the potential of overbuilding. Employment is on the rise, but wage growth is weak. Inflation, once considered evil, is the hoped for outcome of central bank policy. Yet, even with all its efforts to boost inflation, it is still running well below the desired level of 2%. Without rising prices, there is little incentive to increase production by hiring new workers. We don't see things changing much to the good as we look ahead. So, we expect another year of modest economic growth and improving market metrics for industrial real estate. All things considered, things could be a lot worse.



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
DENVER

PHOENIX
DALLAS
HOUSTON

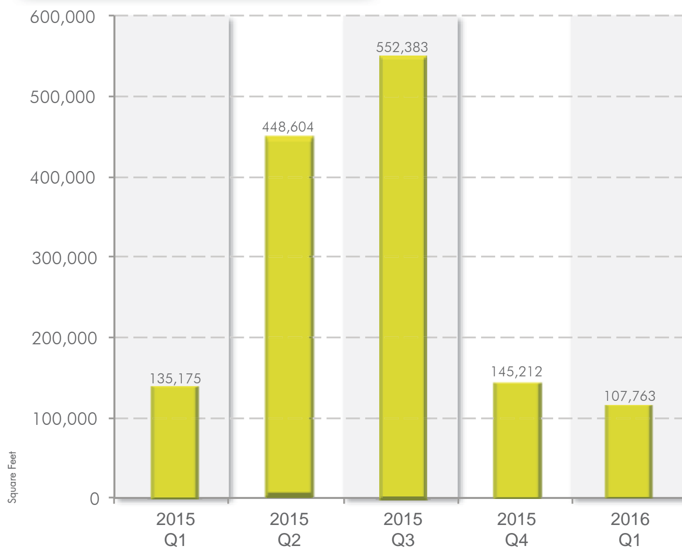
ST. LOUIS

ATLANTA
GREENVILLE

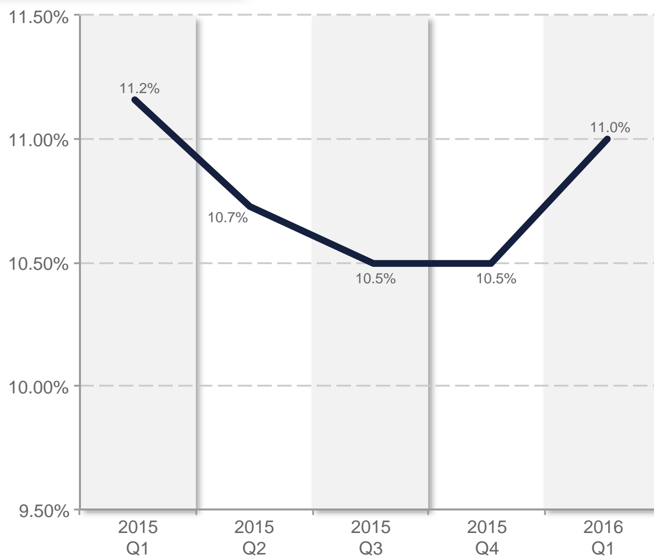
MANHATTAN
NORTHERN NJ

ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

Orange County's office market,* which has been steadily improving for the past five years, is beginning to show signs of weakness. Just as new projects are being delivered, net absorption has been slowing. The decline in vacancy has leveled off and average asking rental rates are nearing its 2007 peak. Even gains in employment have moderated, though the county continues to outperform the State of California as a whole. The unemployment rate remained unchanged at 4% in February after falling by 70 basis points in the previous 12 months. So, it could be that the OC office market has hit a plateau in this market cycle.

By the end of the quarter, vacancy moved up four basis points to 11%, offsetting a similar decline in Q4 of 2015. But, vacancy varies significantly by submarket. Central County, with a base of 22.4 million square feet, still has a vacancy rate of 14.6%. South County, a 23-million-square-foot submarket, has a vacancy rate of just 10.4%, and that is after a rise of 110 basis points due to the delivery of The Irvine Company's 425,000-square-foot tower at 200 Spectrum Center. The Airport Area submarket, as large as the South and Central County submarkets combined, has the lowest vacancy rate at 9.6%.

It's the net absorption numbers that are causing the biggest concern. In the past two quarters, absorption has fallen well below the quarterly average of 432,000 square feet since 2011. Q4 of 2015 saw only 64,574 square feet of net growth in occupied space, and Q1 added just 107,763 square feet. Though both numbers are positive, they come just as construction got under way on another 2 million square feet of Class A and B space, all due to be delivered by the end of 2017. South County led the way in net absorption in Q1, adding 257,000 square feet to occupied space. But, that was offset by a loss of 140,000 square feet in Central Orange County. West and North County submarkets were essentially unchanged, and the Airport Area posted a minor loss.

11.0%	$28.20	107,763	111,130,317	3,019,324
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▲	▲	▼	▲	▲

ORANGE COUNTY - TRENDING NOW (continued)

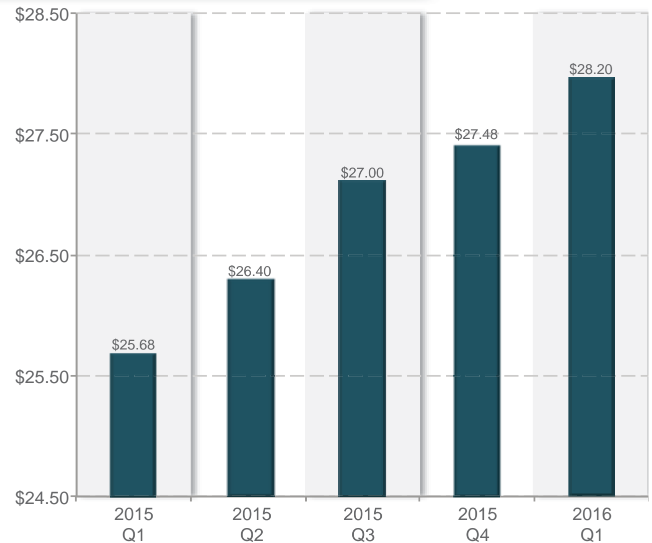
The lack of net absorption may be largely due to the ongoing migration between building classes. Tenants are changing office environments without expanding in terms of occupied space. Some business owners who have seen rents go much higher in recent years, see 2016 as a good opportunity to upgrade to Class A before rents move out of reach. On the other hand, many tenants who signed leases in Class A buildings back in 2010 and 2011, when rates were at recessionary lows, are getting sticker shock and opting to move down to Class B space to control occupancy costs.

The creative space craze may also be contributing to sluggish net absorption. No longer considered a passing fad, the moves to more open and casual floor plans allow businesses to expand its workforces without taking more space. TAMI sector (tech, advertising, media and information) users are especially drawn to creative space, as they see it as a way to attract and keep the younger workers who have the skills to help fuel business growth. Creative space tenants will pay a premium over conventional office space and that has fueled the acquisition and conversion of Class B and C assets, especially in the Airport Area and South County submarkets.

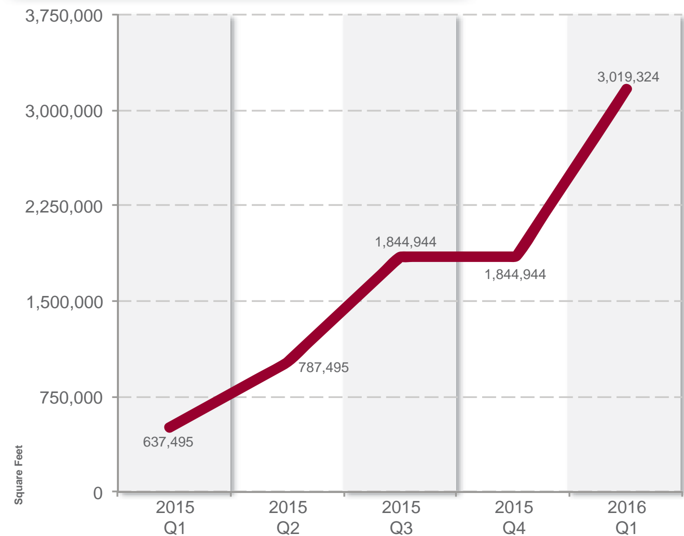
Despite the decrease in market velocity, average asking lease rates moved up another $.06 to $2.35 on a monthly basis. Of particular note, The Irvine Company leased the top floor of its new 21 story tower in Newport Center for a reported $8.50, a record high price for Orange County office space.

* Buildings with a minimum of 30,000 square feet

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

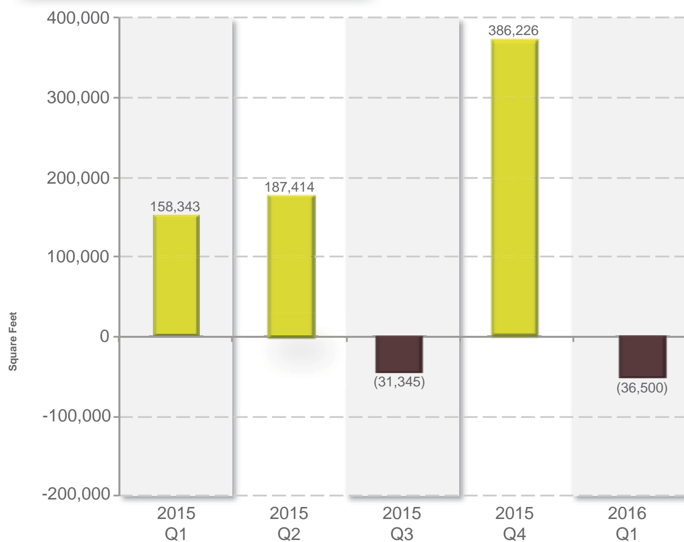


A LOOK AHEAD

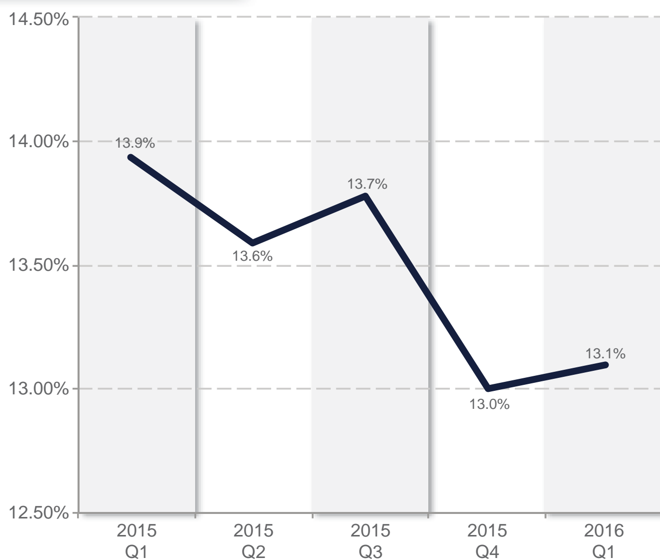
- Leasing activity will remain at current levels in 2016
- Net absorption will decrease compared to 2015, but will remain in positive territory
- Rent growth will moderate as the absorption of first generation space will create higher vacancy in older product
- More Class B and C buildings will be converted to creative space
- Vacancy will stabilize near current levels
- Pricing for owner/user buildings will keep moving up

LOS ANGELES - NORTH

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

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.

The region is generally healthy, but there are significant differences in market metrics at the submarket level. Areas like Sherman Oaks, Encino, Studio City, Westlake, Calabasas and Burbank are in higher demand and that has rents moving up faster in those areas, especially for Class A space. But, landlords in neighboring submarkets with older Class B and C space have had to offer lower lease rates and more in concessions to retain and attract tenants. Users in the tech, media and entertainment sectors prefer the creative space design that has become so popular in the past few years. Conversion to this standard, which calls for more open floor plans, polished concrete floors and open ceilings, is expensive and creative space rents reflect that reality. Since creative space users can decrease the amount of space allocated to each employee, parking capacity is becoming a problem that currently lacks a practical solution.

Although the availability of large contiguous blocks of space is declining, there is still an adequate supply of space up to 20,000 square feet to give expanding tenants multiple options. LA North's overall vacancy bumped up 10 basis points in Q1, finishing the period at 13.1%. Year-over-year vacancy has fallen by 80 basis points. Average rental rates ended the quarter up $.36 to $28.56 per square foot across all building classes. Net absorption declined to negative 36,500 square feet, up from last quarter's positive total of 386,226 square feet, although we believe based on leasing activity that the number will be revised upward in coming months.

13.1%	$28.56	(36,500)	428,797,190	234,700
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▲	▲	▼	▲	▲

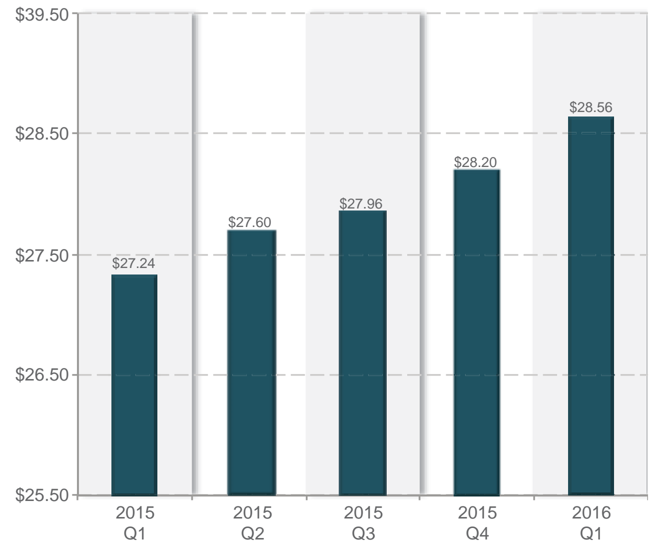
LA NORTH - TRENDING NOW
(continued)

Due to the aging of the population and the focus on health and fitness, leasing activity for medical space and wellness office space continues to move up. Users in the weight management, anti-aging therapy and home healthcare categories are on the move throughout the North Los Angeles area. The San Fernando Valley, which makes up the bulk of the geographical area, boomed after World War II, and many of the people, who settled the region up to the1960's, still reside in the area.

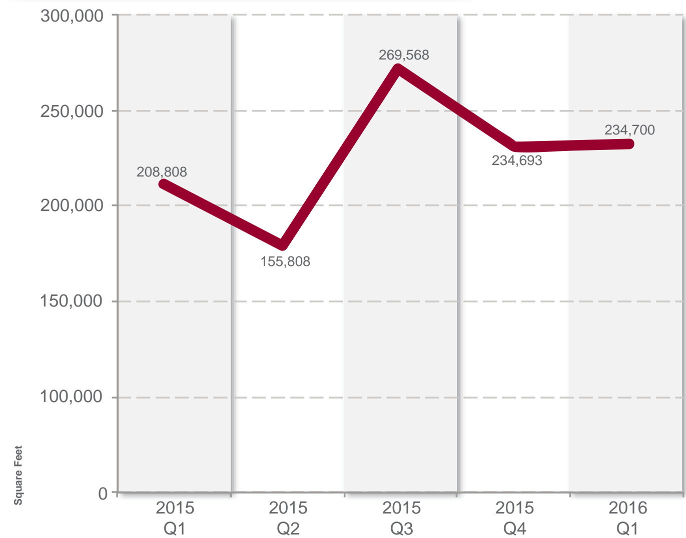
Development is still hampered by the short supply of land, and rents in much of the North Los Angeles market just haven't risen to a level that justifies ground-up development. So, development will remain focused on repositioning of existing assets. The new Title 24 energy conservation regulation that mandates significant upgrades for energy savings when retrofitting space for new occupancy, is driving up tenant improvement costs by as much as 40% depending the size of the individual space and extent of the changes.

Owner/user properties are still in high demand, but a lack of supply has helped to drive prices above pre-recession levels. SBA financing at low rates and minimal down payments keeps tenants n the lookout for space to acquire using fully-amortized loans at interest rates under 5%.

AVERAGE SF RENTAL RATES



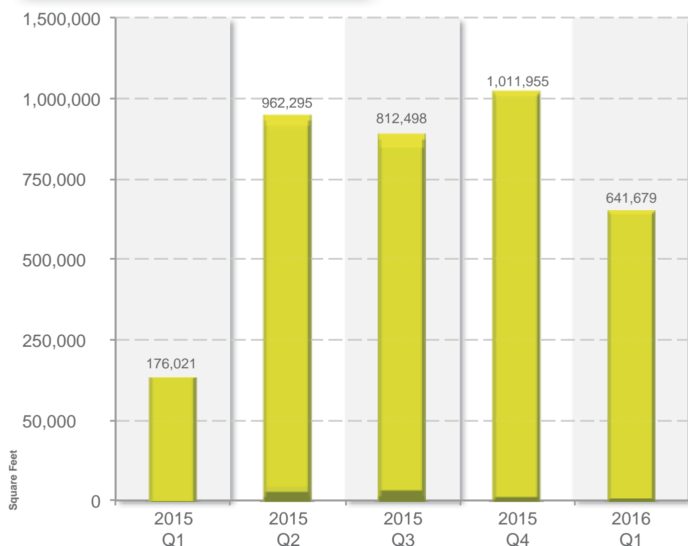
SF UNDER CONSTRUCTION

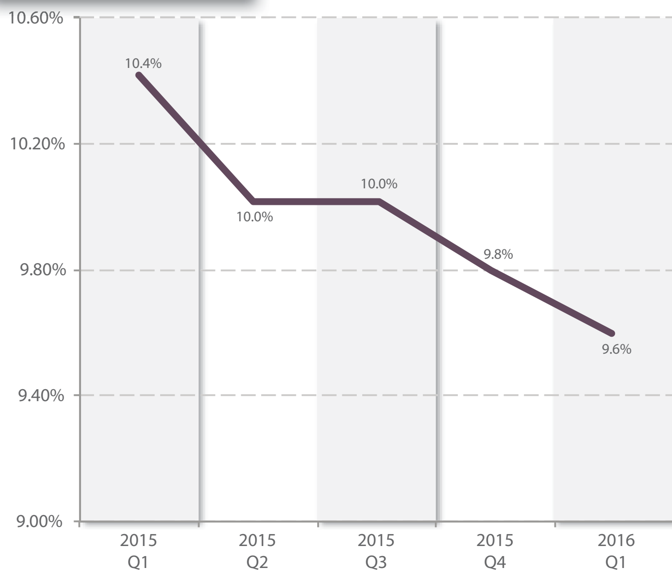


A LOOK AHEAD

- Lease rates will continue to rise faster than vacancy is falling
- Net absorption will be moderate and steady throughout the year
- Sales prices could move up another 10% -15%f in 2016
- Construction activity will remain constrained by a lack of buildable sites
- Creative space tenants in prime submarkets will pay a premium for the best space, as they are concerned about attracting and retaining younger workers.
- Vacancy will fall by 100 basis points over the course of the yea

DENVER





* buildings with a minimum of 30,000 square feet

TRENDING NOW

The Denver office market has definitely been impacted by the massive pullback in the energy sector. Upstream oil sector businesses have cut payrolls, slashed capital budgets and shut down more than half of the country's active drilling rigs, all in response to a prolonged slump in oil and gas prices that began back in 2014. While there has been a recent bump in oil prices, it has not been enough to get the industry moving back in the right direction. As a result, sublease inventory has been on the rise for several quarters but that actually may be easing concerns over a shortage of quality space for expanding Denver businesses in other sectors. While it's true that some new development has been delayed due to the energy slowdown, the good news is that a large portion of Denver's expanding business base is comprised of non-energy, smaller tenants that employ the younger, highly-educated workforce that is increasingly attracted to Denver's urban lifestyle and access to outdoor recreation.

Net absorption hit a positive 641,679 square feet in Q1, as compared to last quarter's 1,011,955. Class A added 337,413 square feet of the net for Q1, while Class B grew by 242,831 square feet. The adequate supply of available sublease space is easing concerns over a shortage of quality space and giving tenants in non-energy business sectors more opportunities to secure quality space. Creative space users needing under 10,000 square feet are still a key component of net absorption, as they tend to be in tech and business services, sectors less impacted by the energy slowdown.

Average asking rental rates for all building classes moved up $.39 in Q1, finishing at $24.84. That contributed to a year-over-year increase of $1.40 per square foot. Class A rents moved up 2.2% in the past four quarters while Class B rents rose at an annual rate of 2.6%. Rising rents are causing some tenants to look

9.6%	$24.84	641,679	192,752,395	4,307,660
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▼	▲	▲

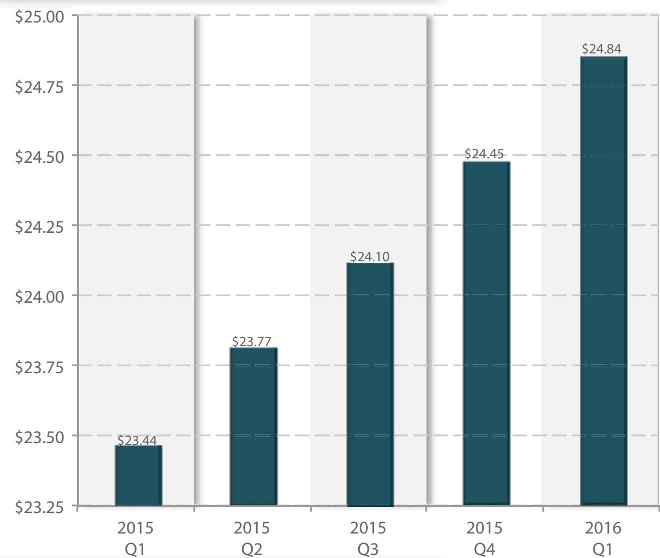
DENVER - TRENDING NOW
(continued)

outside of the primary markets to find good value. Value doesn't just mean lower price. Area amenities, flexible layouts, proximity to public transportation and multi-family housing options all figure into the value equation.

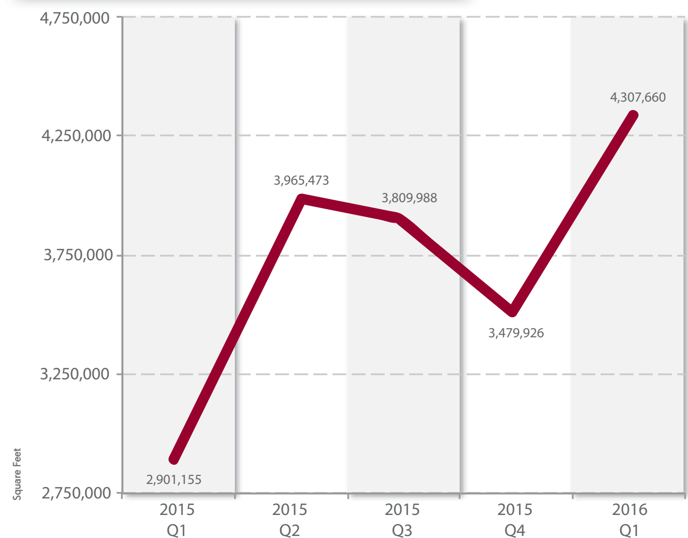
Construction of new office product remains concentrated in LoDo, Cherry Creek and the Southeast suburbs, but with some projects on hold, deliveries for 2016 will be impacted. In Q1, 146,717 square feet was delivered and another 4,307,660 square feet was underway. As of the end of Q1, Denver's stock of office totaled 192.7 million square feet. Significant new deliveries for the quarter include the 61,717 square foot building at 4700 Pearl St and a 53,000-square-foot building at 855 W 122nd St. Both projects are 100% leased. The biggest project under construction is the 670,000-square-foot building at 1144 15thSt, which is just 0% preleased.

The vacancy rate finished Q1 at 9.6%, down 80 basis points year-over-year. Vacancy for Class A space registered a 10.2 % rate, while the inventory of Class B space was 10.3% unoccupied. The delay of some new projects will serve to keep that vacancy rate near current levels, as area developers are being careful not to overbuild the market and stall the steady rent growth Denver has enjoyed in recent years. Several big leases were signed in Q1 that will help keep vacancy moving down, the largest of which was the 104,000 square-foot deal with Biomet, Inc. at 10225 Westmoor Dr. in the Northwest Denver submarket.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

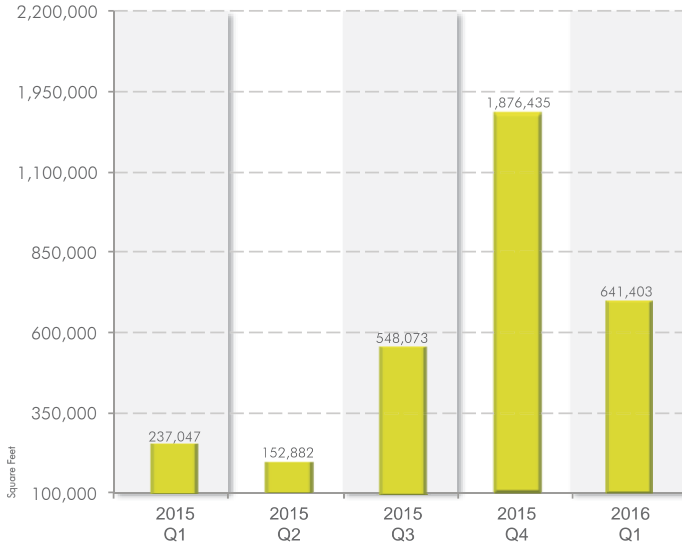


A LOOK AHEAD

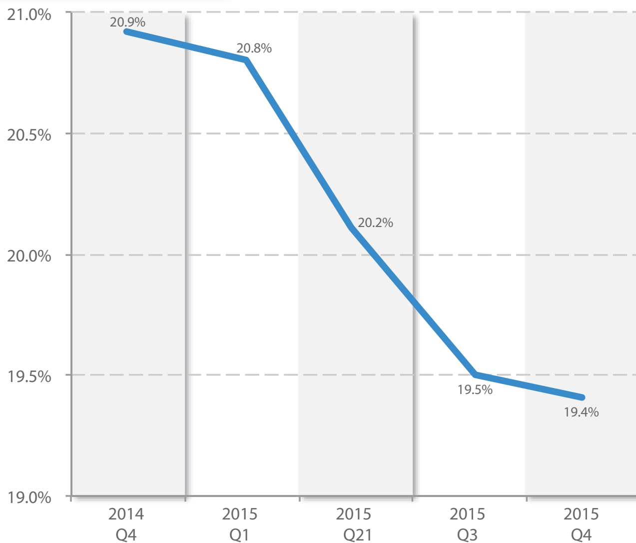
- Net absorption could end the year in negative territory, especially in the CBD
- Lease rates have peaked, at least until a significant recovery in the energy sector occurs
- Vacancy will remain close to current levels throughout 2016
- Job creation in the tech and business services will offset losses in energy
- Creative office users will account for a larger share of office absorption
- Overall, construction will remain near current levels, but decline in the CBD

PHOENIX

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

After posting solid gains in Q4 of 2015, the Phoenix office market carried good momentum into Q1. Total employment has returned to pre-recession levels, and Phoenix is definitely on the radar of tech and start-up businesses that are generating a good chunk of the new jobs. It also doesn't hurt to have large corporations like State Farm Insurance making huge commitments to the area, which demonstrates the positive outlook for the regional economy. The Valley is known for its quality of life, lower cost of living and outdoor recreational opportunities, all high priorities for younger workers sought by today's growing companies. Employers want to locate near transportation hubs in more populated areas to attract and retain the younger workforce who like the urban vibe, mirroring a trend that has swept the nation the last several years.

Areas benefitting most from this demographic shift include Old Town Scottsdale, Downtown Tempe and Downtown Phoenix. The presence of Arizona State University in Tempe, boasting one of the largest enrollments in the country, is also a big draw. Forward-looking companies need to attract and retain the talent that comes out of ASU, and hoping graduating students plan to stay in the area to begin their careers. These areas are amenity-rich, another priority of younger workers. Companies are shifting away from traditional cubicle-based designs to more interactive workspaces that encourage collaboration and support team-based operations. While creative space can be more expensive to construct due to extensive use of glass and other expensive materials, tenants usually allocate less space per employee, lowering the required square footage.

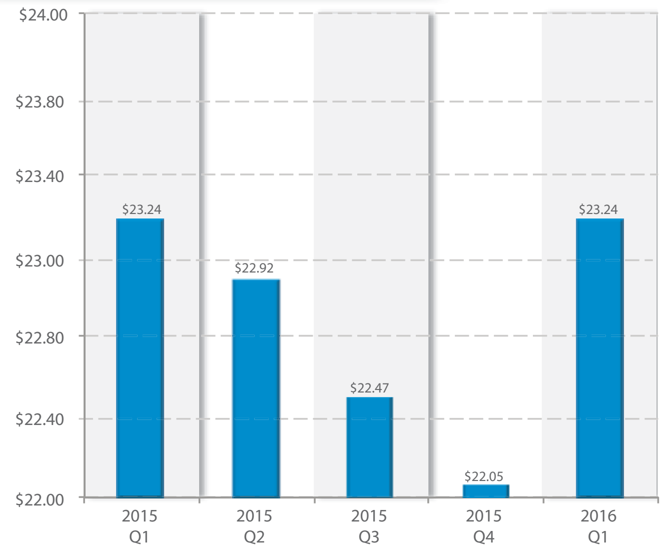
19.4%	$23.24	641,403	85,511,630	1,485,121
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

PHOENIX - TRENDING NOW (continued)

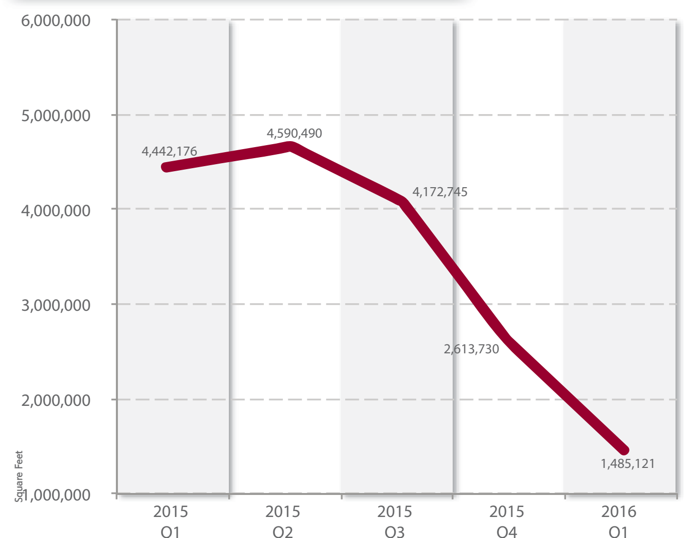
Vacancy inched down by another 10 basis points to settle at 19.4%, continuing its steady decline from a high of 27.1% back in 2010. Vacancy in Downtown Phoenix finished the period at just 16.1%, while Midtown Phoenix vacancy remained stubbornly high at 23%. By contrast, South Scottsdale vacancy finished the quarter at a scant 11%. Improving vacancy numbers came despite the fact that over 1.1 million square feet of space was delivered in Q1, approximately half of that attributable to State Farm's new Marina Heights facility. Nearly 1.5 million square feet remains under construction.

Rent growth--which has been modest due to impact of new deliveries on occupancy levels in second generation space--picked up in Q1, rising by 4.5%. The overall average asking lease rate hit $23.24, but that's still well below the previous peak rate of $25.92 back in 2010. The Camelback Corridor submarket posted the highest rate of $28.60, followed closely by Tempe at $27.64.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



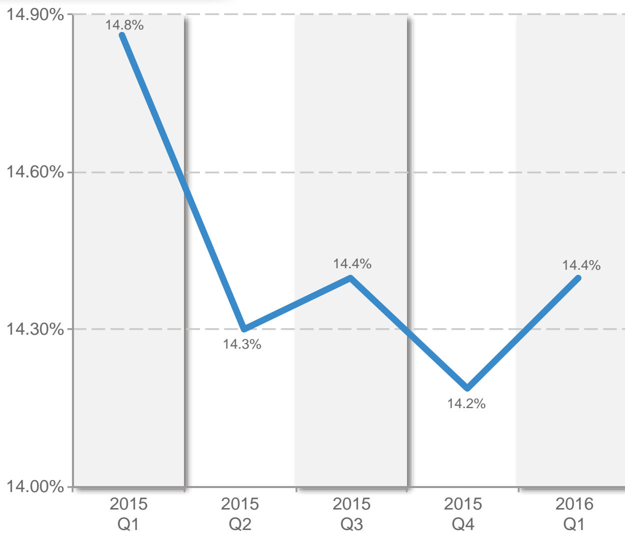
A LOOK AHEAD

- Leasing activity should make modest improvements in each quarter in 2016
- Annual net absorption should remain steady throughout the year
- Vacancy should decline another 60 basis points to 18.8% by the end of the year
- Average asking lease rates could move up by another 5% or more in 2016
- Construction will be focused on back-office, campus-style projects in amenity rich areas

DALLAS

NET SF ABSORPTION

VACANCY RATE



TRENDING NOW

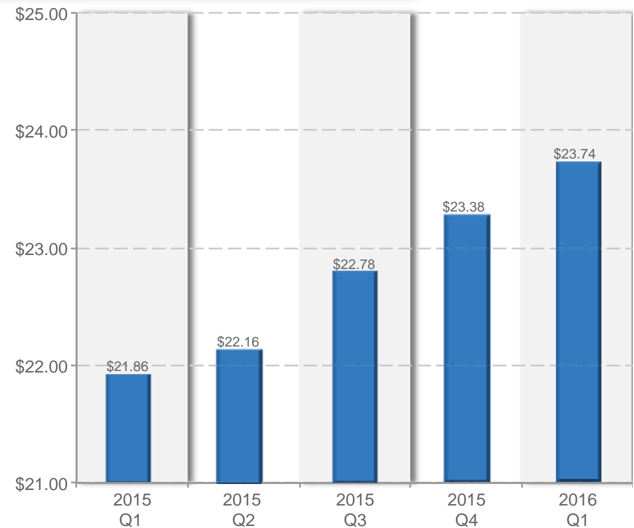
The Central Time Zone and the Dallas/Fort Worth airport make the region an easy place to locate from a logistics perspective. The region is literally in the middle of everything and there is room to grow in every direction. It's no surprise that the economy continues to outperform other major markets that are restricted by a lack of land, affordable housing and regulatory restraints. DFW's job growth has been prolific and the unemployment rate is stabilized at 3.7%. The state of Texas has added more jobs since the last recession than any other state in the US.

Strong population growth attracts major employers to the area and the workers who move here to work experience a high quality of life at a lower price point than major metro areas on the coasts. Add the business friendly environment fostered by the state and local governments and it's no wonder that big corporations like State Farm Insurance, Toyota and Raytheon have all made recent commitments to the region.

Office vacancy ticked up 20 basis points to 14.4% during Q1, as another 1.75 million square feet was added to the base inventory. Over 11.1 million square feet of office space was still underway as Q1 ended. In all, the region added 6.1 million square feet of new space in the last four quarters. Unlike infill markets like San Francisco, Los Angeles and New York, land at prices that makes economic sense is still available.Add in the potential for redevelopment and repositioning of existing assets, and it becomes clear that the region can handle the growth needs of businesses in all asset classes, which cannot be said for other regions of the country that are nearing infill status. Big corporations want to know they can keep growing without pulling up stakes again.

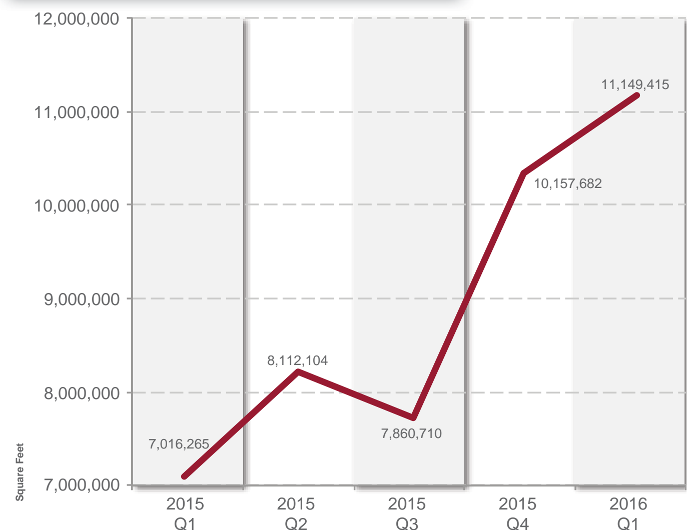
14.4%	$23.74	781,041	353,430,672	11,149,415
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

DALLAS - TRENDING NOW (continued)



Net absorption topped 781,041 million square feet for Q1. Suburban submarkets are still seeing the bulk of the occupancy growth in Class A product, which is where the biggest corporations are choosing to locate. Employers want their employees to be able to live and play near the workplace to improve overall quality of life. Suburban Class B space is benefitting from the herd effect, as smaller employers who service big corporations locate near their biggest customers. In part, that's why 1,190,899 square feet of net absorption in Q1 occurred in the suburbs, while the CBD experienced negative growth for the quarter. To remain competitive, many owners of Class B properties in the CBD are making significant upgrades including common area redesign, fitness centers and eating places.

Overall asking rental rates hit another high point in Q1, with a rise of $.37 to end the period at $23.74. Class A rents now average $27.64, followed by Class B at $20.38. Landlords are pushing rents higher across the board, including lease renewals, as tenants are running out of good quality relocation options. It's now commonplace for a renewing tenant to get hit with a rent increase of up to 25%. Tenant improvement costs have also increased due to rising construction costs throughout the region. Landlords are also squeezing tenants on concessions, which means that effective lease rates are moving up even faster than coupon rates.

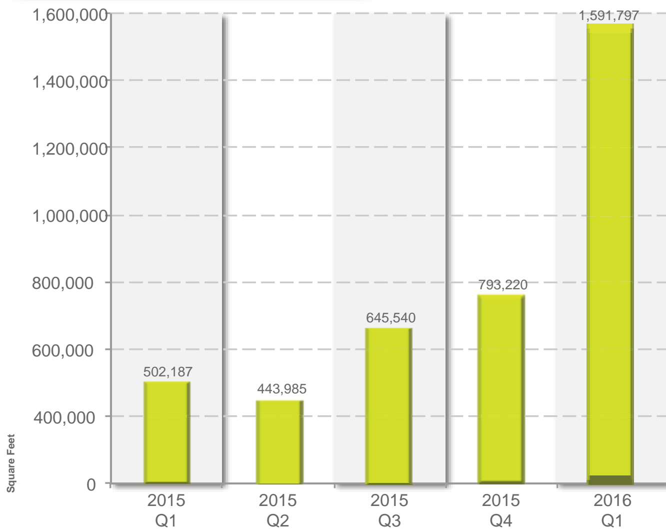


A LOOK AHEAD

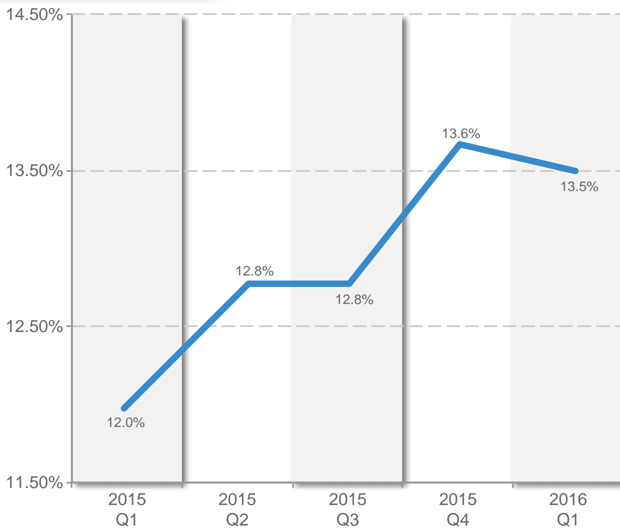
- Tenants looking for large blocks of space will have to compete for the best locations
- Net absorption is expected to moderate coming off a very strong 2015 performance
- Highly competitive investment demand will keep cap rates compressed in the 5% range for quality assets
- Some tenants will reduce lease terms in an effort to time a possible correction several years out
- Average asking lease rates will move up by 3% to 5% in 2016

HOUSTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Troubles for Houston's office market continued in Q1, and until there is a clearly defined turnaround in the energy sector, the region's situation will continue to deteriorate. Even though Houston remains a vibrant and active market in other sectors, it is primarily an oil town, and the local economy is inextricably linked to the price of West Texas Intermediate. Job losses related to the industry have been significant, and the jobs lost have been good ones, which is impacting retail spending and the housing market. The benefits of hydraulic fracturing technology cannot be denied, but the increase in production that has resulted over the past five years, has had a lot to do with the world's oversupply of fossil fuels.

Landlords have become increasingly concerned with the deteriorating financial stability of energy sector tenants, and they are forced to compete with upwards of 10 million square feet of sublease space that has hit the market since the oil market price collapse occurred. Much of that space is Class A and fully improved without ever being occupied. A 20,000-square-foot tenant looking for Class A space may have more than a hundred options to choose from, many offering months or even years of up-front free rent. So, landlords either have to offer large concession packages to protect their rate structures, or acquiesce to lowering coupon rates to retain or attract tenants.

Downtown Houston's leasing market is being driven by mergers and acquisitions in the energy and related legal services sectors. However, the CBD is somewhat sheltered from energy by virtue of its more diverse business base and public transportation benefits. Residential developers have built over 7,000 units in the downtown area before the collapse in oil prices, and millennial portion of the workforce likes all the amenities of a vibrant urban core.

13.5%	$28.06	1,591,797	300,302,825	6,795,251
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

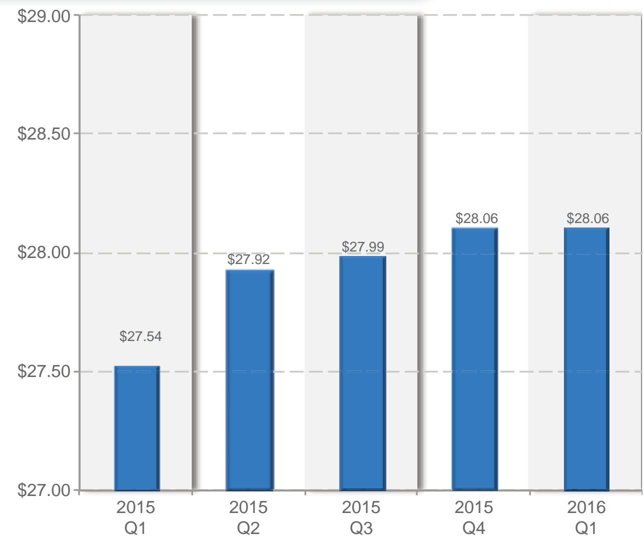
HOUSTON - TRENDING NOW
(continued)

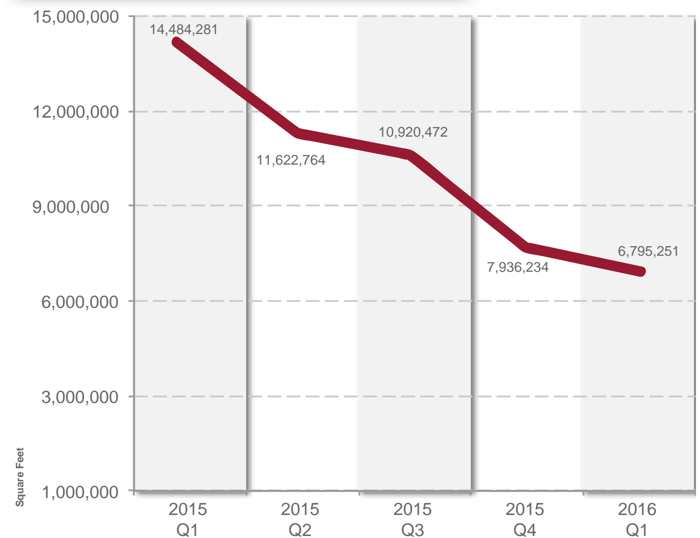
Activity from tenants looking to attract those workers are showing more interest downtown as a result. While the market downtown is indeed softening, landlords there are getting out in front to offer concessions to keep existing tenants or lure in new ones. This is not the first time Houston's CBD has experienced high vacancy, and it may likely be the first to recover as the oil crisis works itself through.

Class B space, on the other hand, is faring much better. Well-located suburban buildings are seeing the most action, as Class A tenants looking to control occupancy costs are looking more to Class B assets. They are looking for bargains, but landlords are getting aggressive by offering generous concession packages to compete for a fewer number of active tenants. This fact is not lost on owners of Class A owners, some of whom will compete against Class B owners by giving copious amounts of free (shadow) rent. Tenants like getting the rent relief when they need it most, and they, along with building owners are looking for ways to weather the near-term storm.

Despite the upheaval in the energy sector, the overall average asking rental rate in Q1 managed to hold steady at $28.06. However, it is important to make note of significant variances due to having so many large blocks of space coming back on the market quarter-to-quarter.

Net absorption started the year with a net gain of 1,591,797 square feet. In all of 2015, 2,385,000 square feet of positive absorption was recorded. The overall vacancy factor actually moved down by 10 basis points in Q1, to finish the period at 13.5%, but both vacancy and absorption numbers are expected to deteriorate in the coming quarters.



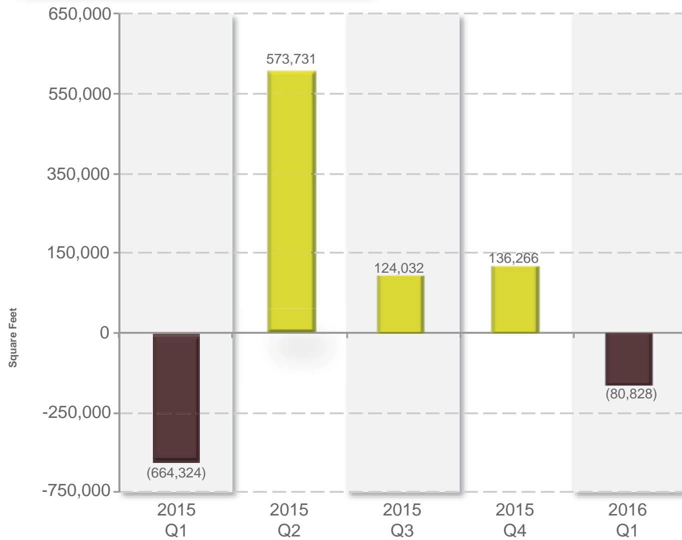


A LOOK AHEAD

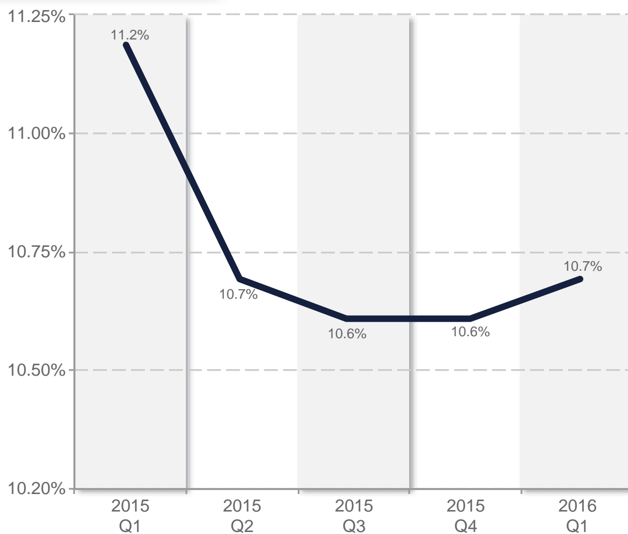
- Net absorption will remain in decline for the next several quarters
- Vacancy will keep moving higher as more sublease space is added to available inventory
- Rental rates will decrease slightly but effective rates will be sharply lower due to large concession packages
- M&A activity will increase in the energy sector, which will add to sublease inventory
- Demand to acquire office space is declining
- Development of new inventory will remain on hold until vacancy returns to more acceptable levels

ST. LOUIS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

St. Louis' 130-million-square-foot office market made consistent, incremental gains in 2015, but the first quarter of 2016 turned soft. Net absorption turned slightly negative, vacancy inched up and the average asking rental made a modest decline. The overall regional economy has been in growth mode, thanks in large part to Boeing, General Motors and other major employers. Boeing, in particular, made significant moves that benefited the office market during last year, and General Motors has been attracting new suppliers to area. The recent announcement regarding the development of the 295 acre Chrysler land site was welcome news. The new development, which is expected to attract a variety of manufacturing, office and distribution uses, should generate up to 1,500 new jobs. Work on the site is expected to begin this year. The unemployment rate in St. Louis fell by 70 basis points in the past year to its current level of 4.7%. In all, nearly 31,000 new jobs were created in 2015. Another 6,900 were added in February of 2016.

After posting three straight quarters of substantial positive net absorption, Q1 posted a disappointing 80,828 square feet of net decline in occupied space. Class C accounted for 45,168 square feet of that total, while the class A had a nominal loss of just under 10,000 square feet. Absorption has been strongest in the Clayton and North County submarkets, but the entire region has been posting gains in occupied space. The biggest move-in for the quarter was 19,800 square foot lease to Varsity Tutors. The lack of at least one large transaction for the quarter indicates that the negative absorption number was an anomaly. The largest lease signing in Q1 was a 61,816 deal with Centene Corporation at the Timberlake Corporate Center in West St Louis County.

10.7%	$18.19	(80,828)	130,782,184	1,029,500
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▲	▼	▼	▲	▼

ST. LOUIS - TRENDING NOW (continued)

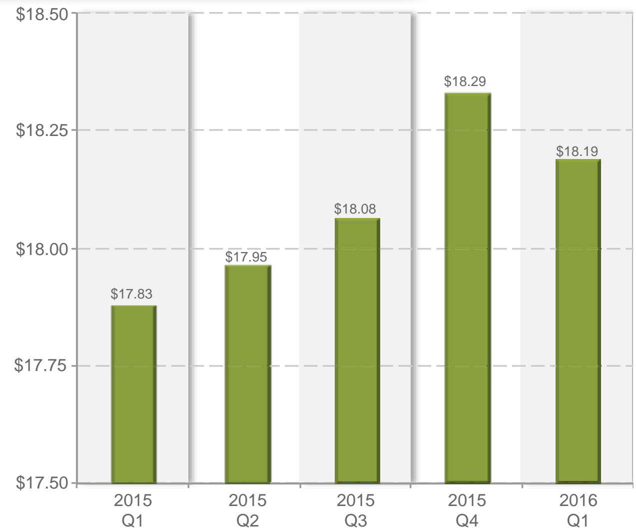
Net absorption has not been strong enough to stimulate speculative development. However, the planned construction of a 14-story, 233,000-square-foot spec building in Clayton was announced in Q1. That is an encouraging sign that confidence in the long term growth potential for the region is rising. Just two new buildings, totaling 51,600 were delivered in Q1, but another 1,029,500 square feet is underway. The two largest projects currently under construction, which total 720,000 square feet combined, are 100% preleased.

The overall vacancy rate for the region edged up 10 basis points to 10.7% in the first quarter. Class A and Class B both moved up by the same margin to finish the quarter at 8.8% and 12.9%, respectively. Year- over-year vacancy has declined by 50 basis points.

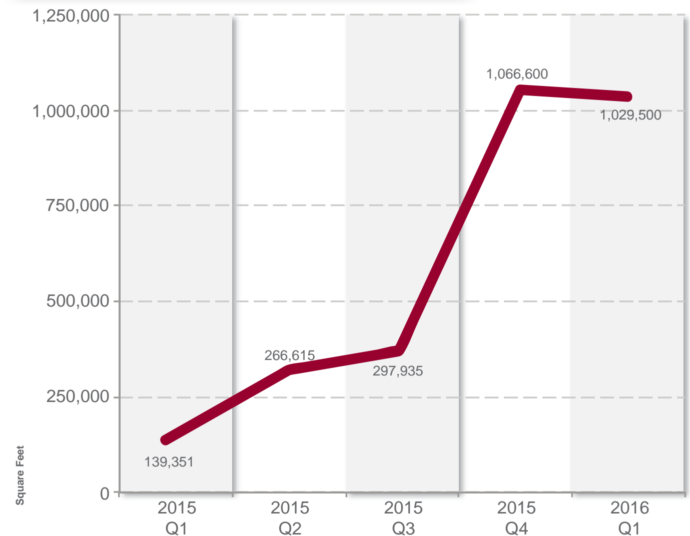
Average asking rental rates have been make moderate gains since 2012. However, in Q1, the overall rate decreased by $.10 to $18.19. The class A rate was unchanged at $22.26 while class B moved down $.26 to $16.70. Suburban office rates continue to outperform the CBD. By the end of the quarter, suburban rates averaged $18.79 compared to $16.40 for the CBD. There are more large blocks of space available in the CBD, which will keep a lid on growth there. But, the availability of larger spaces in suburban submarkets is declining. So, rents there will continue to see stronger growth in 2016.

The recent announcement that the St. Louis Rams are returning to Los Angeles in 2016 was disappointing, but it's long term impact on the regional economy is a big unknown.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

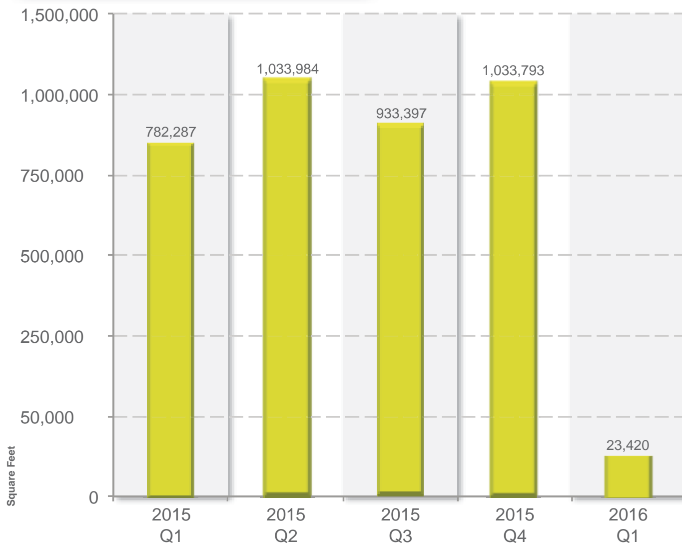


A LOOK AHEAD

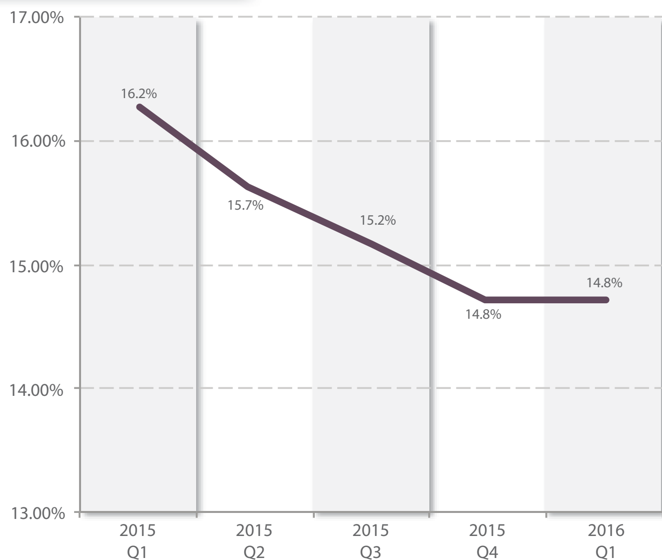
- Leasing activity will strengthen led by major relocations in the West County submarket
- Absorption will be modest but should end the year in positive territory
- Asking lease rates have stabilized overall, but look for increase in Clayton
- Speculative development is just beginning but modest rent growth will keep it a nominal level
- Expect a slow but steady decline in vacancy through 2016.

ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Atlanta office market continued to improve overall in Q1. Net absorption remained positive at 23,420 square feet for the period, adding to 2015's total of 178,336,720 square feet in occupied space. The vacancy rate kept steady at 14.8%. Atlanta is still a favorite of major employers who need access to a skilled and educated workforce. However, low levels of new construction could put the region at higher risk for a slowdown in major expansions if the supply of larger blocks of quality space depletes. The unemployment rate fell 10 basis points in Q1, ending the quarter at 5.2%.

Leasing activity topped 3.38 million square feet in Q1, but more tenants are looking to retrofit existing spaces and renew in place to avoid much higher rates. Many tenants currently in the market signed existing leases when rates were much lower, resulting in sticker shock, a phenomenon felt in other high growth areas around the country. Sharply higher rental rates are good for landlords, but may affect expansion plans and net absorption in the coming quarters. Some tenants may be forced to look back to the suburbs to lower occupancy cost, which could curb rent growth in prime submarkets.

Quoted lease rates for all building classes combined moved higher in Q1, rising $.35 to $22.15 per square-foot. Class A rose by $.57 for the period and $1.97 year-over-year to end Q1 at $25.75. Tenants continue to pay a premium for Class A properties in Buckhead, Central Perimeter and Midtown submarkets, but it's getting tougher to find available space in those areas.

14.8%	$22.15	23,420	209,277,645	2,964,180
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

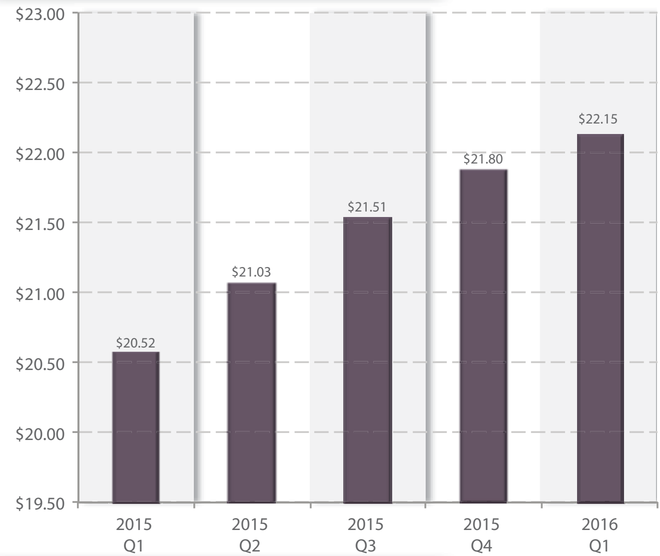
ATLANTA - TRENDING NOW
(continued)

The lack of developable land in prime submarkets, and the user resistance to the $40-plus rents required for a new Class A project to make sense, are combining to keep building activity in check.

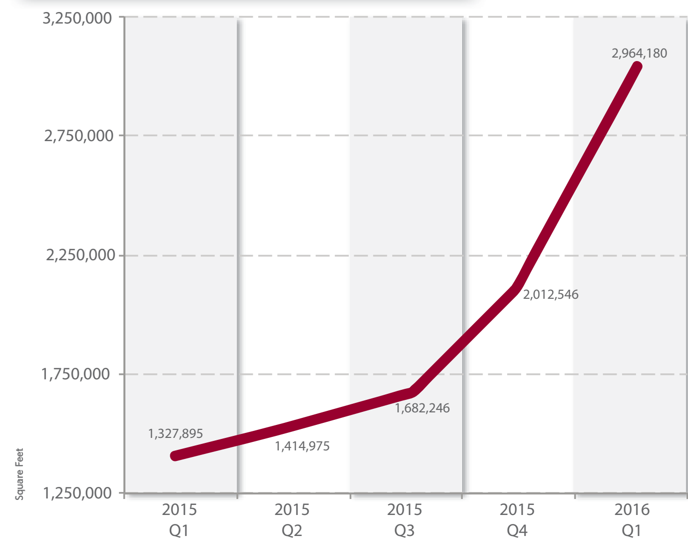
Class B rose by $.96 year-over-year to $18.23, but many suburban class B buildings are still suffering from a flight to quality to Class A properties. This trend may be reversing, though, as the spike in Class A rents has more tenants rethinking their priorities. The Class B buildings that have the best chance for higher occupancy and rental rates are those that can be retrofit to increase the cool factor, contain interesting architectural elements or are located near retail amenities and public transportation. That means tired buildings with 8-foot ceilings are off the radar of today's typical office user. Generally, vacancy still goes up and prices go down as distance from the city center increases.

Development remains concentrated in Class A product in Buckhead and the Central Perimeter, but remains very light considering the overall health of the Atlanta job market. As Q1 ended, 2.0 million square feet was still under construction, including Tishman Speyer's Three Alliance Center and Riverwood 200, the only two spec Class A buildings currently underway, unchanged since the previous quarter. Infrastructure challenges and the high cost of the few remaining prime sites will keep deliveries from picking up anytime soon.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

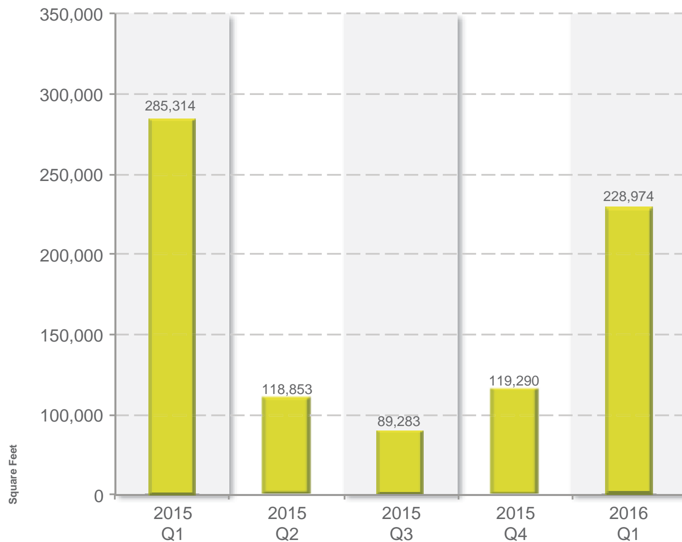


A LOOK AHEAD

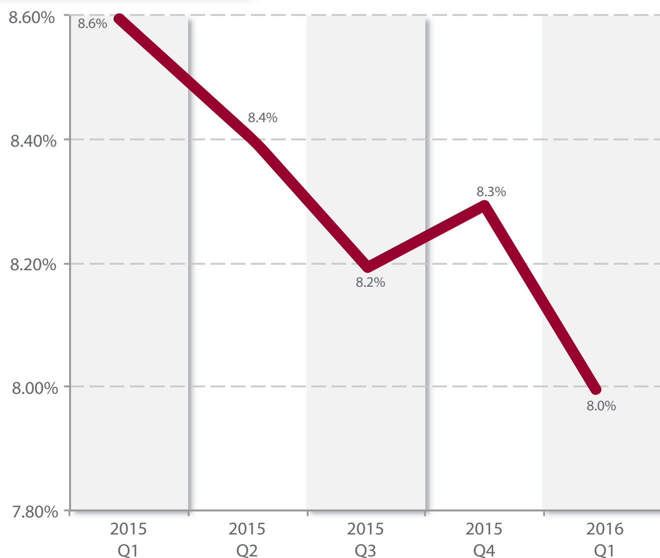
- Rents are likely to rise another 5% overall in 2016, but will move up faster in CBD submarkets
- Net absorption will remain positive and steady throughout the year
- Vacancy will continue its moderate rate of decline and stabilize in the 10% range
- Average asking lease rates in prime submarkets will keep moving up, but at a slower pace
- Suburban office product will get more attention from tenants suffering from sticker shock in prime areas
- Speculative development will be limited, but could move up by as much as 10% in 2016

GREENVILLE

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Greenville office market remained in growth mode to give 2016 a good start, after a very strong performance in 2015. Leasing activity was up, absorption stayed in positive territory and vacancy fell again. Developers are still bullish on the area, especially when it comes to building more class A product in the vibrant downtown market. The entire Greenville-Spartanburg region is enjoying steady economic growth. Over 250 international businesses call it home, making the area the highest international investment per capita MSA in the nation. Large companies like Hubbell Lighting, Fluor Corporation, BMW and Michelin North America all have made major commitments to Greenville-Spartanburg. They like the close proximity to a convenient airport, several interstate highways, two major railroads and the new inland port facility. Without the high cost of larger metro areas, these businesses can realize substantial operational savings, but still have access to all they need for long term growth.

The economic effect of massive investments by these and other major users has revitalized the economy and given rise to many other businesses needed to support the resulting growth of the region. Downtown Greenville is showpiece of CBD revitalization, with its blend of residential, office and retail space that creates a true live-work-play environment. Things will only get better moving forward. In Q4 of 2015, the sale of the 4.3 acre Greenville News site downtown was announced. This signature property is slated for a mixed-use development that includes office buildings, luxury condominiums, apartments, a hotel and onsite parking garage, all wrapped around an open green plaza area.

8.0%	$15.32	228,974	37,504,793	294,800
VACANCY ▼	AVG. SF RENTAL RATES ▼	NET SF ABSORPTION ▲	SF INVENTORY ▲	SF UNDER CONSTRUCTION ▼

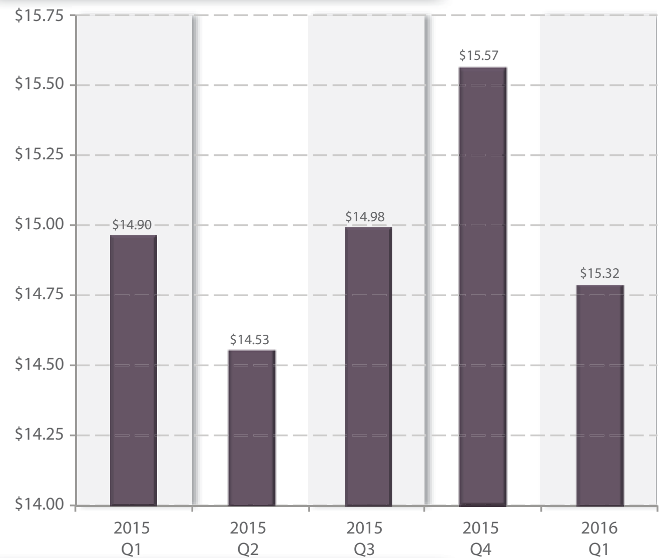
GREENVILLE - TRENDING NOW
(continued)

The office market remains a bright spot in the area's resurgence. In Q1, almost 229,000 square feet of positive net absorption was reported. Just under 158,000 of that was in Class A product. The net gain in occupied space was concentrated in suburban submarkets. Significant transactions inked during the quarter that will soon be contributing to net absorption include a 20,000-square-foot lease to Endeavor at ONE Greenville-Phase I and a 19,277 lease to Coveris at Patewood IV.

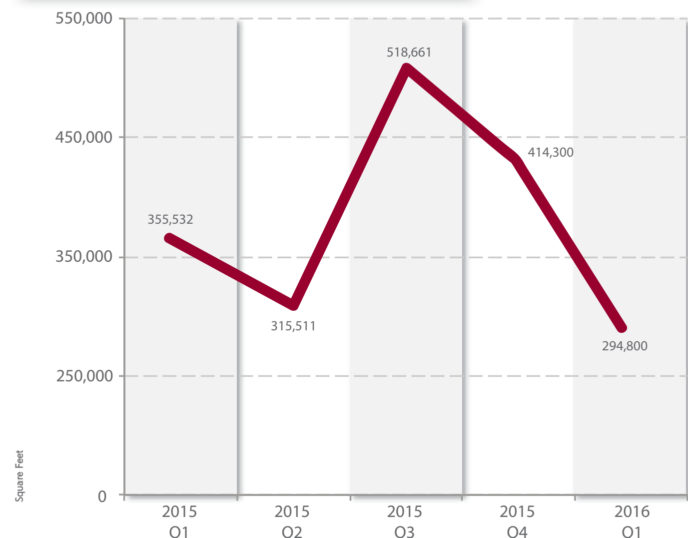
Overall market vacancy ended the quarter at 8%, down 30 basis points from Q4. Class A vacancy in Q1 fell 150 basis points to 10%. The average asking rental rate for Class A space during Q1 fell 1.6% to $15.32, while the class B rate moved higher by $.11 to finish the period at $14.27.

Development activity has been steadily increasing. Almost 295,000 square feet of office space remained under construction in the Greenville area at the end of Q1. Of the 119,500 square feet of space delivered in the period, most of it was preleased. Current projects underway include a 125,000-square-foot building with onsite parking in Downtown Greenville that is pre-leasing quickly to national and local tenants.

AVERAGE SF RENTAL RATES



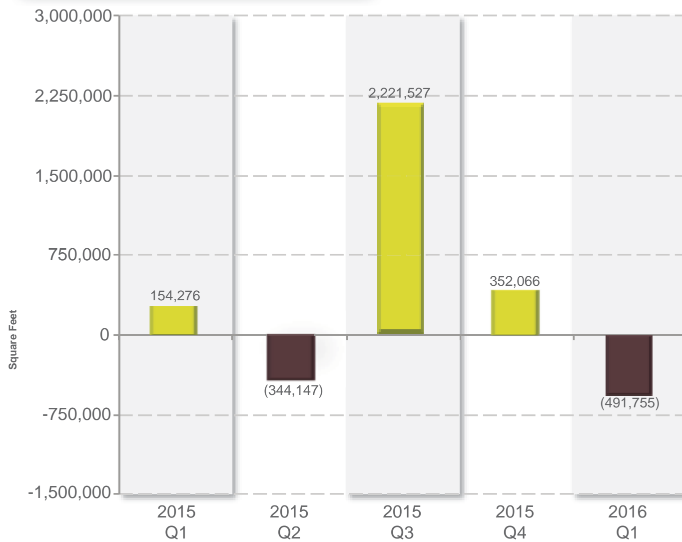
SF UNDER CONSTRUCTION

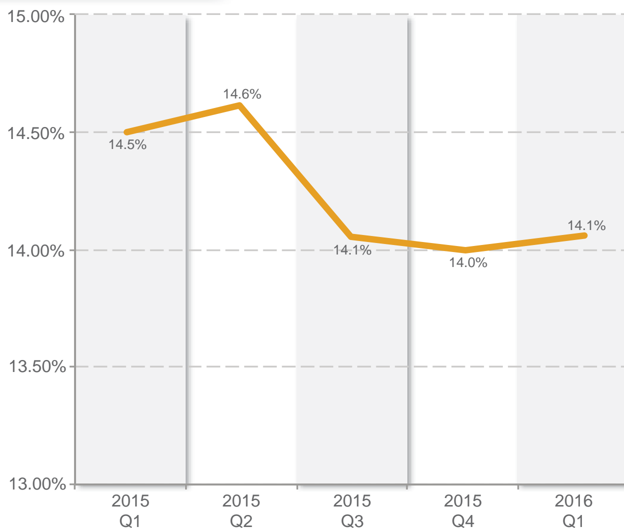


A LOOK AHEAD

- Leasing activity will continue to strengthen throughout the year
- Net absorption will remain positive and near current levels
- Average asking rental rates, which are approaching historical highs, will increase at a moderate and steady pace
- New construction will continue as demand for quality space remains strong
- Look for more mixed-use projects, especially in Downtown Greenville
- Vacancy will move lower throughout the year

NORTHERN NEW JERSEY





TRENDING NOW

The performance of the Northern New Jersey office market remained mixed in Q1, in part due to tepid job growth throughout the region. Economic incentives offered through the Grow New Jersey program are helping keep some companies in the area, but more organic job growth is needed to get the office market rolling at a faster pace. Over-supply of aging inventory in suburban markets is a big part of the problem. Demand has shifted to more urbanized areas with amenities that the suburbs don't offer. Transit towns are faring best, as they provide access to high-paying jobs, cultural and entertainment venues and multifamily housing preferred by the younger workforce. Overall, the state has to do a better job exploiting its strengths, which include a well-educated workforce, proximity to New York City and its location along the Boston to Washington DC corridor.

Rent growth for the overall market has been lackluster, but has been weakest in older, marginal inventory in suburban areas. By the end of Q1, average asking rental rates moved up by $.10 to finish the period at $24.40. Class A rents increased by $.13 to $27.76, while the rate for Class B fell by $.06 to $22.14. Landlords are becoming increasingly cautious about tenant creditworthiness, but due to oversupply, they must still take on significant risk to keep space leased up. To mitigate exposure to weaker tenants, they are swapping free rent for big work letters.

Net absorption has been negative in two of the last five quarters and the vacancy rate has hovered in the 14% range since 2011. In Q1, net absorption came in at a negative 491,755 square feet, as compared to a positive 352,066 square feet in Q4. With so many tenants looking to reduce occupancy costs, renewals are on the rise, and many of them are being inked at rates less than what tenants are currently paying. With no new

14.1%	$24.40	(491,755)	362,524,483	2,139,665
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▲	▲	▲	▼	▲

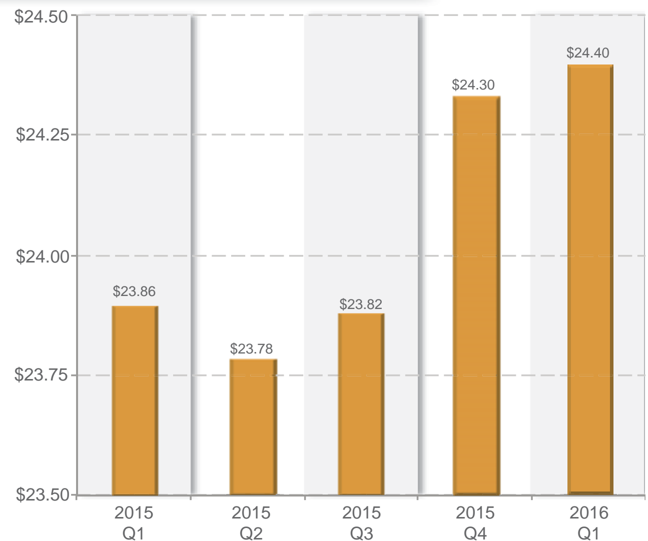
NORTHERN NEW JERSEY - TRENDING NOW (continued)

inventory built in the last ten years, there is a lack of high quality inventory available, even for tenants willing to pay more to upgrade their space. Rather than put up with the hassle of moving, they renew in place and settle for lower operating costs.

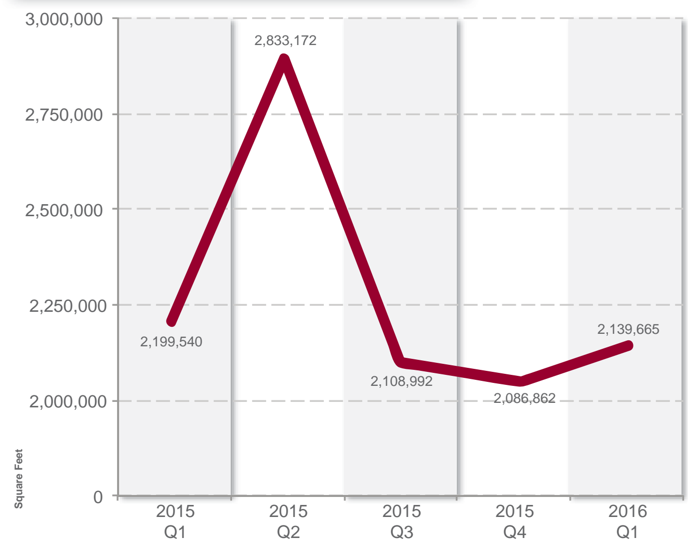
Speculative construction is still at a standstill and even the newest Class A office buildings are at least ten years old. There just hasn't been enough good news to give developers and lenders the motivation to deliver new space. Rents required to pencil new projects are just not in the offing for the moment. So, speculative construction is limited to the retrofit and repositioning of well-located older properties. In all of 2015, a total of 1,234,000 square feet of office space was delivered, and in Q1, just 147,197 square feet was added, bringing Northern New Jersey's office base up to 362.5 million square feet. The two largest properties delivered in 2015 were both 100% pre-leased, Prudential's 750,000-square-foot tower and Summit Medical Group's 140,000-square-foot building at 140 Park Ave. Another 1.1 million square feet of build-to-suit space will soon be delivered to Bristol-Meyers Squib and Celgene Corporation, each deal totaling over 500,000 square feet.

Buyer demand for office investment properties is still running ahead of demand. However, there is a gap in expectations by sellers and buyers, especially as it relates to older properties that require extensive capital improvements to restore leasing competitiveness. Prices offered by buyers of these assets reflect those additional costs, falling short of seller expectations.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

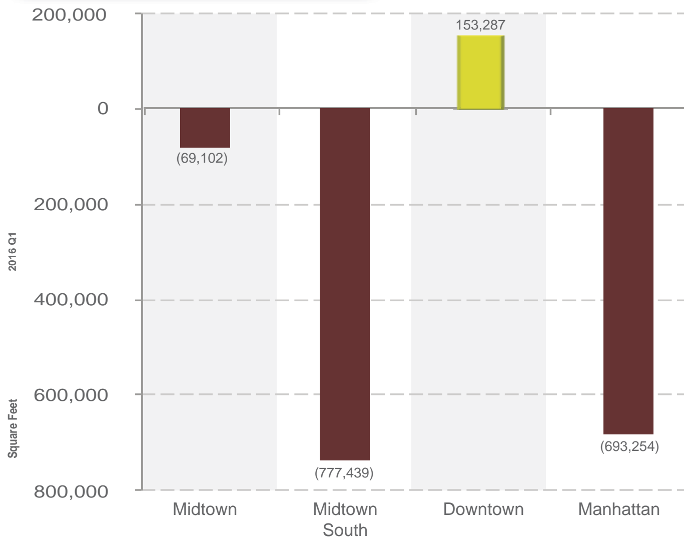


A LOOK AHEAD

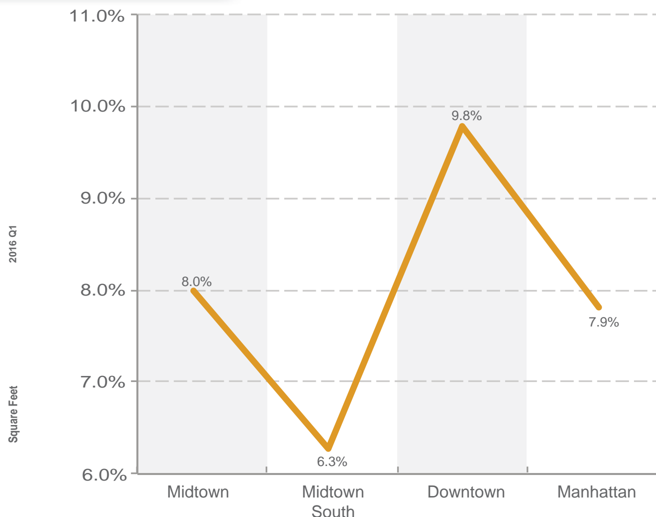
- Lease activity will marginally improve over the course of the year
- Net absorption should make modest gains in 2016
- Vacancy will move down slightly during the year depending on the pace of job growth
- More obsolete buildings will be re-purposed and removed from office inventory
- Asking rents will rise by 3%-5% for Class A, and remain flat for Class B
- Owner/user sale prices should rise another 3% to 5% by the end of the year

MANHATTAN

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Manhattan office market made a difficult start of the new year. Though 2015 was a year of rising rents, positive absorption, lower vacancy and robust construction, Manhattan has three major market areas, Midtown, Midtown South and Downtown, each with distinct characteristics that attract particular user types. In essence, Manhattan's story is a tale of three cities. So, it is important to look at all three together and then each alone to develop a clear picture. Lee & Associates tracks buildings with at least 100,000 rentable square feet throughout the city, except for SoHo and NoHo, where buildings greater than 50,000 square feet are quantified. Overall, vacancy in Manhattan fell 70 basis points in 2015, but ticked up 20 basis points in the first quarter to 7.9%. Positive net absorption, which topped 1.4 million square feet in Q4, went the other way in Q1, posting negative absorption of 619,319 square feet. Overall rental rates did manage to move up again to start the year, rising $1.61 to $73.55. Another 12.44 million square feet of new office space was underway as Q1 ended, with plans for delivery running out as far as 2019.

Midtown has been home to some of the country's largest companies, especially in the financial and legal services sectors. Rents are highest in Midtown, ranging up to $110 per square foot in the Plaza District. The average asking rate for all six submarkets in the Midtown market, ended 2015 at $80.14, but slid to $79.33 in the first quarter. Net absorption in Midtown was a disappointing negative 69,102 square feet. The Times Square submarket finally posted a positive net absorption of 201,265 square feet. The last time Times Square experienced a positive net absorption was Q3 2014. Tenants there are losing patience with the high concentration of tourist traffic, and have opted for space elsewhere to improve the work experience for employees. Construction in Midtown is

7.9%	$73.55	(619,319)	476	12,440,113
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INVENTORY (MSF)	SF UNDER CONSTRUCTION

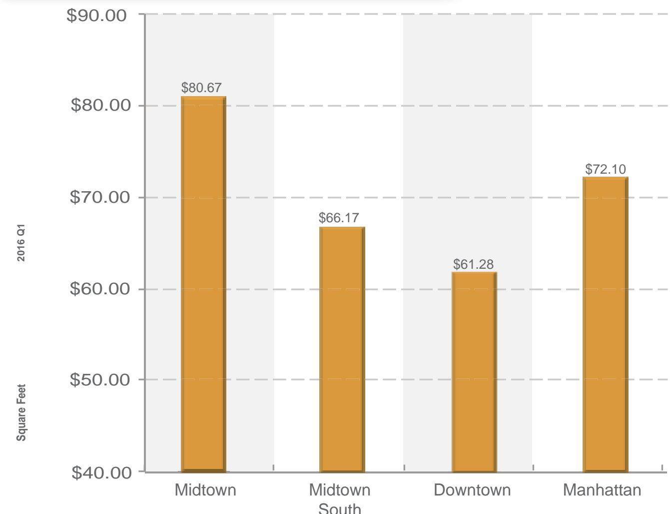
MANHATTAN - TRENDING NOW
(continued)

concentrated in just two buildings, a 670,000-square-foot tower at 425 Park Ave and another 94,124-square-foot project at 600 W 58th Street. But, the new East Midtown Rezoning initiative will soon bring new Class A product to the 73 block area around Grand Central Station.

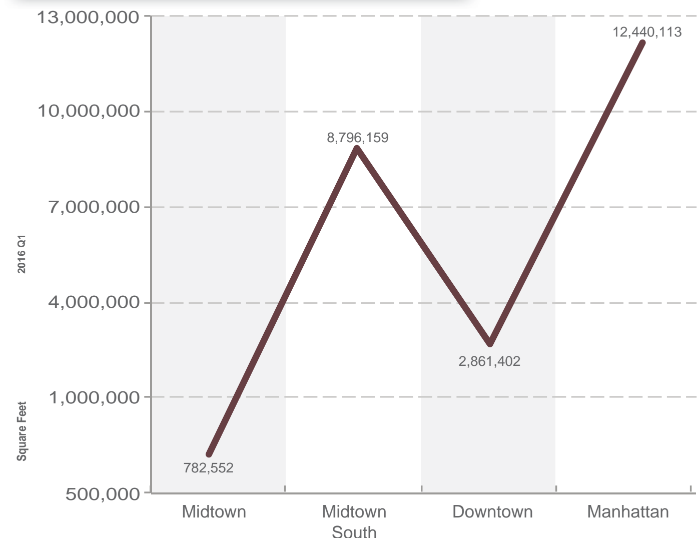
Midtown South is a fast-growing section of Manhattan and is increasingly referred to as "TAMItown" because of the growing concentration of technology, advertising, media and information companies. These are the businesses that are looking for an alternate work environment that appeals to the growing millennial workforce. Open space designs with more common areas and natural light are more readily available in this area of the city that includes buildings that have been repurposed for use as office space. Rents are lower than Midtown, as well. The average asking rental rate in Midtown South finished the quarter at $70.31, after finishing the year at $66.14. Due to several new projects in the vicinity of Hudson Yards, Midtown South accounts for nearly 71% of the space currently under construction in Manhattan.

Downtown, which includes the World Trade Center, has been steadily gaining in popularity in recent years. It is a hybrid market, offering a variety of product types that attract users from both Midtown and Midtown South. In particular, the area has many buildings with larger floor plates that offer more flexibility in terms of space design. Rents are lowest in Downtown, finishing the quarter with a slight gain to $59.96. 3 World Trade Center, a 2, 861,402-square-foot building, is the only building presently under construction.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



*Lee & Associates tracks building inventory of more than 100,000 sf of rentable area, except in SoHo & NoHo where buildings have more than 50,000 sf included.

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 and sublease rents will move up in 2016
- The new East Midtown Rezoning initiative will begin to revitalize the area around Grand Central Station
- Retrofit of existing properties will increase due to lack of ground-up development opportunities
- Cap rates for investment properties will remain compressed in the mid 4% range
- TAMI sector will lead the way in terms of job growth and leasing activity

SELECT TOP OFFICE LEASES Q1 2016

BUILDING	MARKET	SF	TENANT NAME
Colonnade South	Birmingham	456,823	Southern Co
Alexandria Technology Campus	San Francisco	404,109	Verily
Urban Union	Seattle/Puget Sound	285,000	Amazon
151 N. Franklin St.	Chicago	277,849	CNA
100 Federal St.	Boston	252,000	Putnam Investment Management
WestMark One	Richmond, VA	227,036	Suntrust
Encore Center	Atlanta	222,000	HD Supply
Colonnade North	Birmingham	212,615	Southern Co.
425 Park Ave	New York City	211,400	Citadel Investment Group
Three Bryant Park	New York City	210,496	Salesforce.com, Inc.
American Woolen Company Bldg.	New York City	200,668	Facebook
2401 N. Glassell St	Orange County, CA	190,000	Volt Information Sciences

SELECT TOP OFFICE SALES Q1 2016

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
Cira Square	Philadelphia	870,262	$406.77	5.8%	Korea Investment Corp	Brandywine Realty Trust
70 & 90 Hudson	Northern, NJ	857,940	$348.51	4.01%	Spear Street Capital	CBRE Global Investors
7700 Parmer	Austin	911,579	$298.66	6.18%	Accesso Partners, LLC	Spear Street Capital

Nationwide Lee Offices

Arizona
Fred Darche
602.956.7777
Phoenix, AZ 85018

California
Clarice Clarke
805.898.4362
Santa Barbara, CA 93101
(Central Coast)

Brian Ward
760.346.2521
Palm Desert, CA 92260
(Greater Palm Springs)

John Hall
949.727.1200
Irvine, CA 92618

Mike Tingus
818.223.4380
LA North/Ventura, CA 91302

Craig Phillips
323.720.8484
Commerce, CA 90040
(LA Central)

Robert Leveen
213.623.1305
Los Angeles, CA 90071
(LA ISG)

Greg Gill
562.354.2500
Long Beach, CA 90815
(Los Angeles)

Aleks Trifunovic
310.899.2700
Santa Monica, CA 90404
(LA West)

Steve Jehorek
949.724.1000
Newport Beach, CA 92660

Craig Phillips
562.699.7500
City Of Industry, CA 91746

Craig Hagglund
510.903.7611
Oakland, CA 94607

Don Kazanjian
909.989.7771
Ontario, CA 91764

Bob Sattler
714.564.7166
Orange, CA 92865

California (cont'd)
Craig Phillips
323.720.8484
Pasadena, CA 91101

Mike Furay
925.737.4140
Pleasanton, CA 94588

Dave Illsley
951.276.3626
Riverside, CA 92507

Dave Howard
760.929.9700
Carlsbad, CA 92008
(San Diego North)

Steve Malley
858.642.2354
San Diego, CA 92121
(San Diego UTC)

Tom Davis
209.983.1111
Stockton, CA 95206

Dave Illsley
951.276.3626
Murrieta, CA 92562
(Temecula Valley)

Don Brown
760.241.5211
Victorville, CA 92392

Denver
John Bitzer
303.296.8770
Denver, CO 80202

Florida
Jerry Messonnier
239.210.7610
Ft. Myers, FL 33966 (Naples)

Tom McFadden
321.281.8501
Orlando, FL 32839

Georgia
Dick Bryant
404.442.2810
Atlanta, GA 30326

Victor Segrest
404.781.2140
Atlanta, GA 30328 (Appraisal)

Idaho
Matt Mahoney
208.343.2300
Boise, ID 83703

Illinois
James Planey
773.355.3014
Rosemont, IL 60018 (Chicago)

Indiana
Scot Courtney
317.218.1038
Indianapolis, IN 46240

Maryland
J. Allan Riorda
443.741.4040
Columbia, MD 21046

Michigan
Jon Savoy
248.351.3500
Southfield, MI 48034

Minnesota
Chris Garcia
952.955.4400
Minneapolis, MN 55401

Missouri
Thomas Homco
314.400.4003
St. Louis, MO 63114

Nevada
Lyle Chamberlain
775.851.5300
Reno, NV 89501

New Jersey
Rick Marchiso
973.475.7055
Elmwood Park, NJ 07407

New York
Jim Wacht
212.776.1202
New York, NY 10022

Ohio
Brad Coven
216.282.0101
Pepper Pike, OH 44124
(Cleveland)

Tim Kelton
614.923.3300
Dublin, OH 43017
(Columbus)

Pennsylvania
John Van Buskirk
717.695.3840
Camp Hill, PA 17011

South Carolina
Bob Nuttall
843.747.1200
Charleston, SC 29492

Randall Bentley
864.704.1040
Greenville, SC 29601

Texas
Trey Fricke
972.934.4000
Addison, TX 75001
(Dallas/Fort Worth)

Chris Lewis
713.660.1160
Houston, TX 77027

Wisconsin
Todd Waller
608.327.4000
Madison, WI 53713

Canada
Chris Anderson
604.684.7117
Vancouver, British Columbia

Gerald Eve
James Southey
+44 (0) 20 7333 6226
www.geraldeve.com

The Lee Office Brief

lee-associates.com

Q1 2016

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