Lee & Associates Newport Beach

The Lee Office Brief

Q2 2016

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LEE & ASSOCIATES®

COMMERCIAL REAL ESTATE SERVICES

155%
increase
in transaction volume over 5 years

$12+ billion
transaction volume
2015

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

870
agents
and growing nationwide

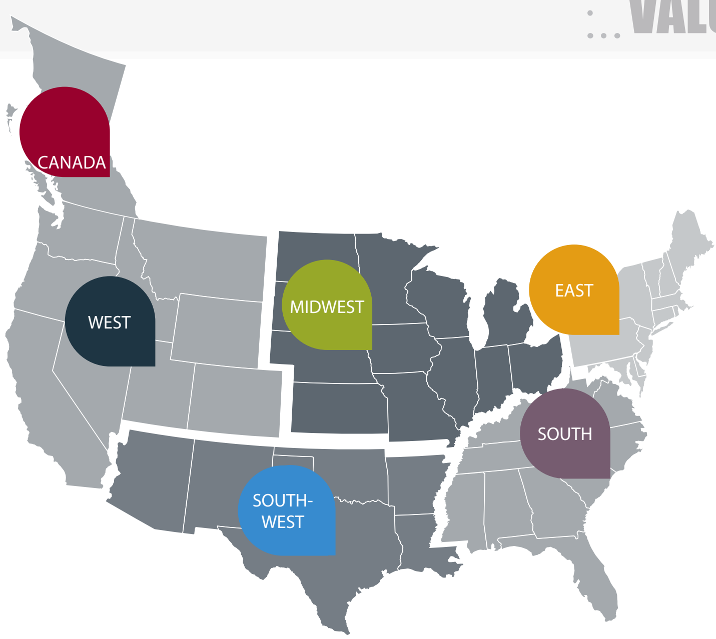
LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS.

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

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

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

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



THE POWER OF THE LEE NETWORK

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

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

Reno, NV
Oakland, CA
Antelope Valley, CA
Santa Barbara, CA
Palm Desert, CA
ISG- LA, CA
Boise, ID
Long Beach, CA
Denver, CO
Pasadena, CA

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

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

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

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

Canada, BC

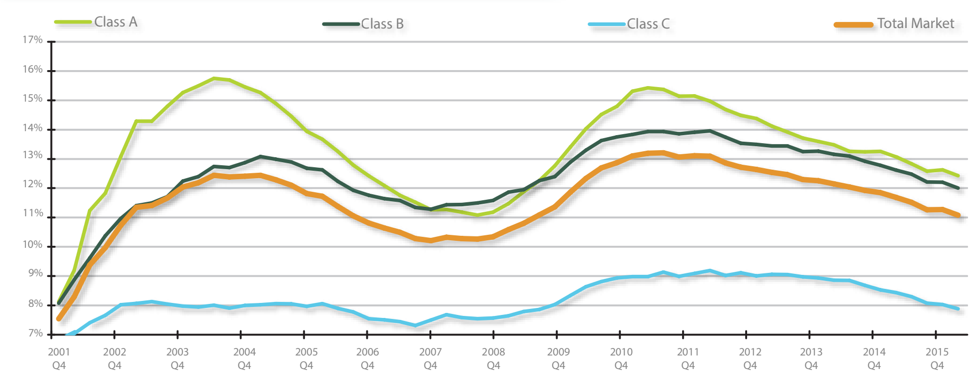
US OFFICE MARKET

Office Market Bounces Back in Q2

After a lackluster first quarter performance, the US office market rebounded in Q2. Vacancy, which was unchanged in Q1 compared to Q4 of 2015, resumed its decline, falling 20 basis points to finish the period at 10.1%. Net absorption more than doubled and average asking rental rates moved up again to extend a more than five year run of quarterly increases.

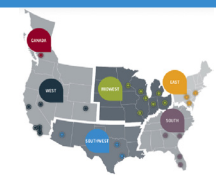
Office markets including New York City, Washington, DC, Chicago and Orange County, CA, all reported net gains in occupied space in Q2 after posting negative net absorption in Q1. That helped bring net absorption nationwide to a healthy 37.5 million square feet compared to just 15.2 million square feet in the first quarter. Talk of a slowdown in tech sector growth hasn't slowed down net absorption in the San Francisco and Silicon Valley markets, as those areas together reported over 1.7 million square feet of gains in occupied space.

VACANCY RATES BY CLASS 2001-2015



ECONOMIC DRIVERS

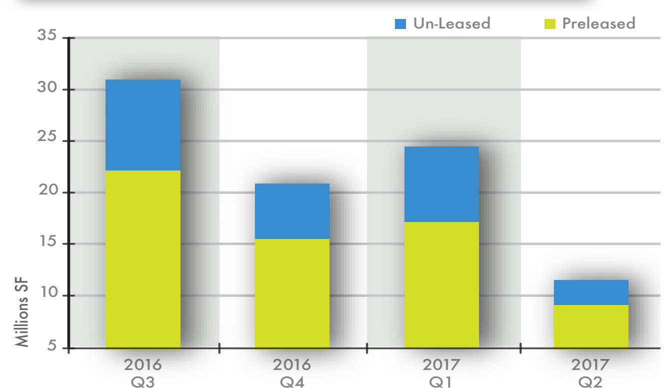
- GROWTH
- EMPLOYMENT
- MONETARY POLICY
- GLOBAL ECONOMY



- A LOOK AHEAD

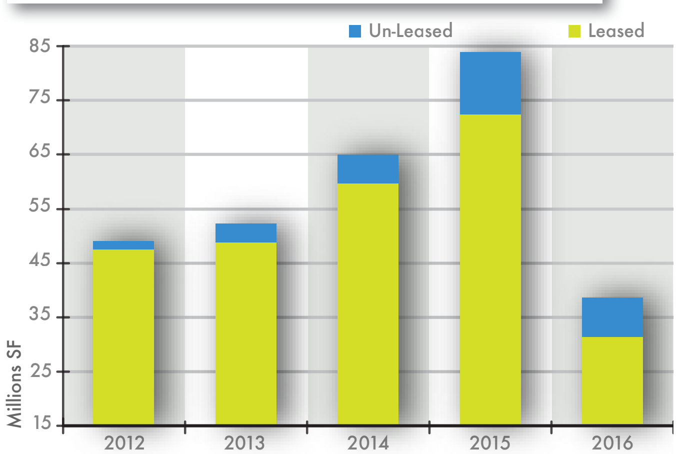
The Seattle/Puget Sound market, another tech hot spot added 921,000 square feet to the total of occupied space. Los Angeles also had a good quarter, as its occupied space total swelled by over 1.2 million square feet. Even Houston, despite challenges posed by the energy sector slowdown, managed to nearly break even for the period reporting negative absorption of just 61,000 square feet. Average asking lease rates for the US moved up $.12 in Q2 to $23.56 per square foot, which represents .5% increase for the period.

FUTURE DELIVERIES



RECENT DELIVERIES

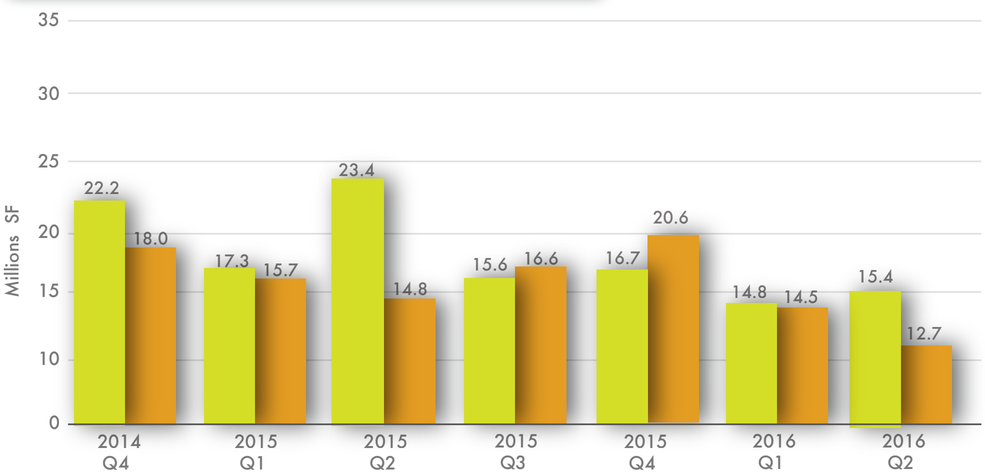
LEASED & UN-LEASED SF DELIVERIES LAST 5 YEARS



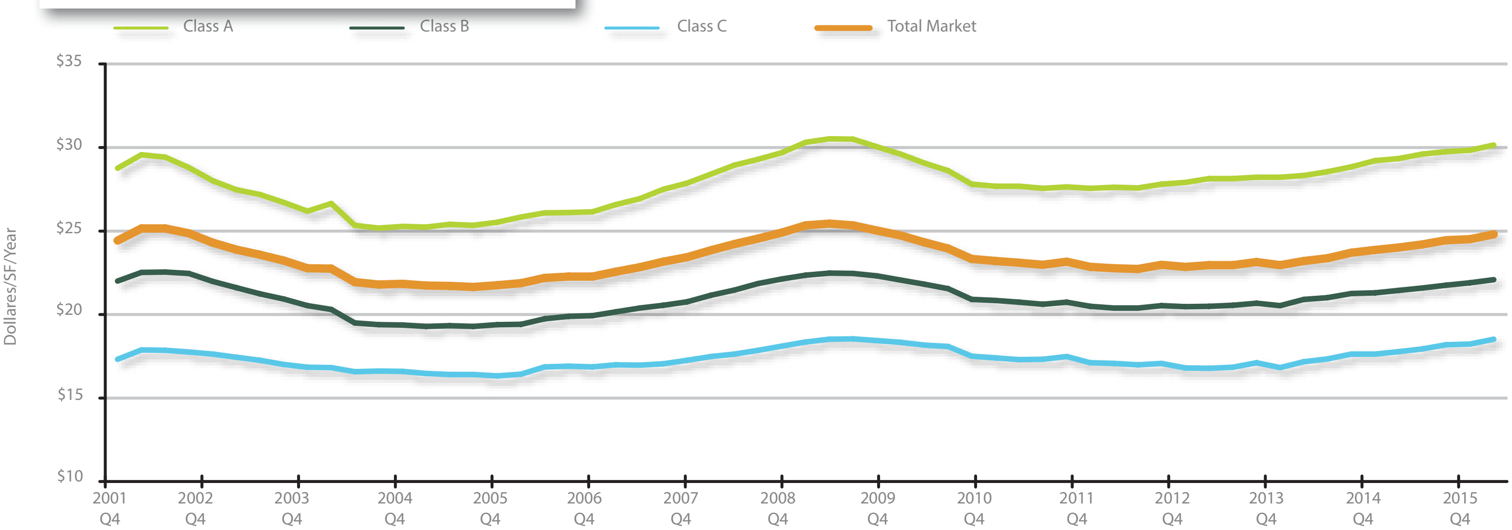
Rents are moving up in most office markets around the country, but markets with large TAMI and healthcare sectors tend to see bigger rent gains. Energy markets are beginning to see rental rates slide back. Houston, perhaps the biggest energy market in the country, saw a $.36 decrease in asking rents, ending the quarter at $27.70 for all building classes combined. The looming problem there is the large blocks of space that have been coming back on the market for sublease, which is putting downward pressure on rents. That pressure on rents and net absorption, as well, is likely to persist until the slack in demand caused by under-utilization tightens back up.

The level of new deliveries remained steady in Q2 at just over 19 million square feet in 313 new buildings. Another 142.6 million square feet is still being constructed, and 55% of that is concentrated in just 10 of the nation's largest markets. New York City is at the top of that list with nearly 13.3 million square feet underway. Dallas/Fort Worth is not far behind at 11.3 million square feet, followed by Washington, D.C. at 9.6 million square feet and South Bay/San Jose (Silicon Valley) at 9.2 million square feet. Another tech-heavy market, Seattle/Puget Sound, rounds out the top five at 7.8 million square feet. The largest project delivered in Q2 was the 1.7-million-square-foot 10 Hudson Yards building in New York City. Developers continue to focus on mixed-use projects in urban core areas that are near public transit and entertainment venues, which appear to be high priorities for the millennials.

ABSORPTION & DELIVERIES PAST 7 QUARTERS



HISTORICAL RENTAL RATES 2001-2015
BASED ON FULL-SERVICE EQUIVALENT RENTAL RATES



As we have been reporting for the past two years, institutions and private investors, both large and small, have been chasing short supply of office product for sale. Cap rates remain compressed to record lows and core assets are trading hands below 5%. Foreign buyers are still hungry for US assets, and that is likely to continue given increasing concerns over a weakening global economy and new concerns over the European Union occasioned by the recent Brexit vote. Investors everywhere still see the US as the safest of safe havens to stash capital when the going gets tough

A LOOK AHEAD

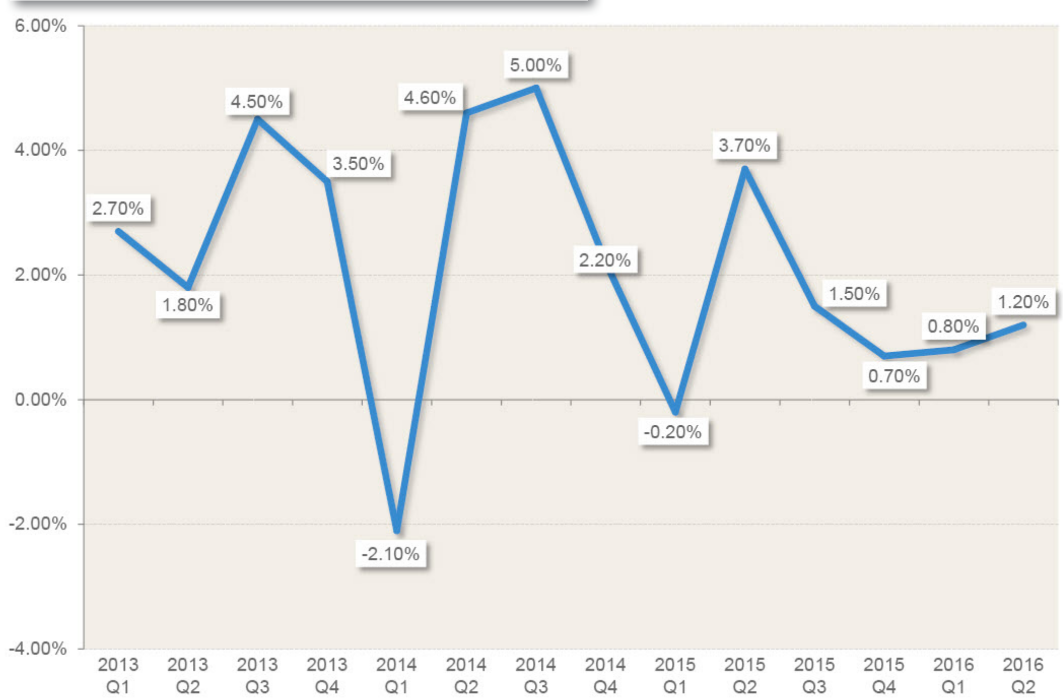
The US office market regained the momentum it lost in the first quarter. However, employment growth, the key driver of net absorption, has been sporadic. Monthly job gains have taken a step back in recent months, and that poses significant risk to the office market going forward. Fortunately, a good percentage of the jobs being created are being generated by office-using tenants, but recent job numbers show that most of the jobs being created are in retail, healthcare services and the restaurant industry, positions that tend to pay less and do little to increase the need for office space.

Wage gains continue to disappoint and, as previously reported, too many workers are in part time positions, which may be indicative of a more defensive strategy. We will be keeping a close eye on job and wage growth at the sector level for forward guidance on the direction of the office market.

GDP GROWTH

After a dismal showing in the first quarter of 2016, the first estimate of GDP growth for Q2 came in at just 1.2%, less than half of what was expected. Inventories, thought by most experts to be on the rise, declined substantially. However, a 4.2% increase in consumer spending kept economic growth from being even more of a disappointment. Adding to concerns over chronically sluggish GDP was the downward revision of Q1's growth rate to .8% from 1.1%. Anemic growth in the global economies isn't helping sentiments here at home, either. Despite massive central bank interventions to stave off a deflationary spiral, little progress has been realized.

QUARTER-TO-QUARTER GROWTH IN REAL GDP



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 US equities. Fortunately, those losses were recovered late in Q1, and the Dow Jones Industrials Average surged back up to 18,000. The problem is there was little to point to for that to be the case other than fear. But, the "Brexit" vote in late June surprised just about everybody and the Dow took another dive on the news. Four days later, the Dow set a new record high on July 8th.

Volatility in equities has become commonplace and savvy chief executives are going take that into account as they make decisions for their companies that will show up in GDP numbers down the road. Now, volatility and uncertainty seems to be the rule of the day no matter what the topic may be.

Output of US goods and services are becoming more expensive around the world, and that fact will impact the net investment in business and the trade deficit, both major components of GDP. It now looks like US GDP growth will lag behind 2015's final tally of 2.4%. There just doesn't seem to be enough evidence to expect anything more, as nominal increases in consumer and government spending (the other components in the GDP equation) will not be enough to make up the difference. The fact is that our economic growth is anemic despite unprecedented action by our central bankers to give the economy a booster shot.

Consumer spending, which accounts for roughly 70% of GDP, and the numbers don't look good. As we pointed out last quarter, US consumers are keeping a firm grip on their wallets because they're pessimistic about what's to come economically. Retail sales, a large component of consumer spending, has made some modest gains of late, but it did nothing more than make up for declines earlier in the year.

GDP GROWTH

Wage growth, or lack thereof, has been a persistent problem throughout this marathon of a recovery, and it is central the issue impacting consumer spending. Income growth is running just above 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 kind of purchases that will move the GDP needle in any significant way. Instead, they continue to pay down existing debt, which doesn't contribute a penny to current GDP.

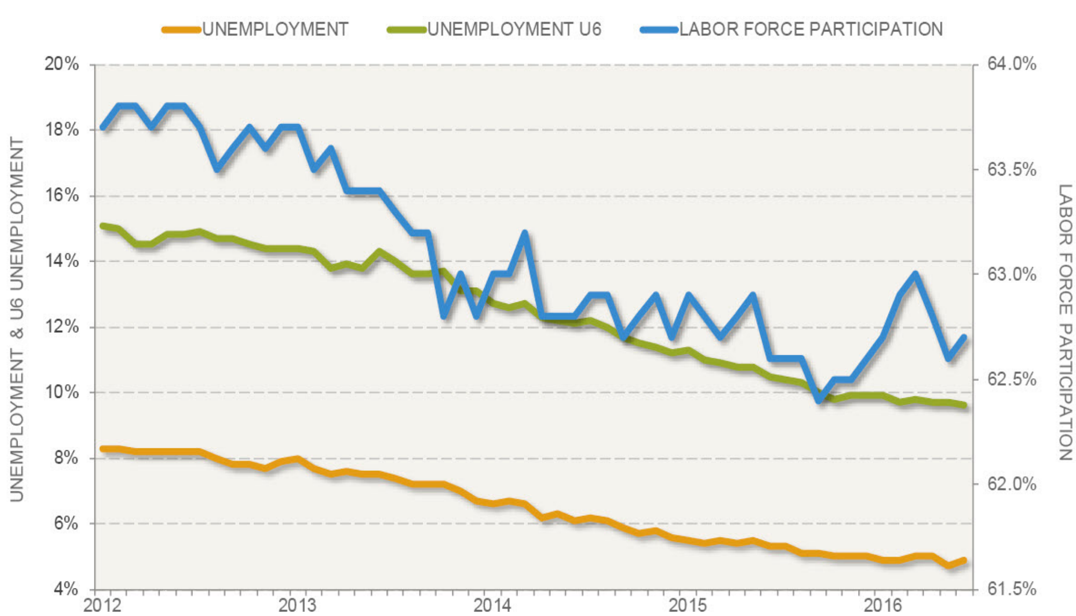
Net exports, another key component of the GDP equation, have been hurt by the US dollar's strength against other currencies. US goods and services have become more expensive abroad and the impact to US companies who sell products and services that are paid for in other currencies, has been substantial. Exchange rates fluctuate daily, but it's safe to say that the dollar will remain strong as long as the current level of economic uncertainty persists. If other countries voluntarily devalue their currencies to increase the competiveness of their exports, the US Dollar will soar and things could get worse for American companies that have substantial exposure to foreign markets.

EMPLOYMENT

Predicting job growth numbers is getting tougher each month. A year ago, the average monthly increase for non-farm employment over the previous 12 months was well over 200,000 new positions. That number has fallen substantially, and the monthly numbers are getting more erratic. Q2 is a good example. April's total was 144,000. The latest estimate for May came in at 11,000 and the first estimate for June was 287,000! How do people make big business decisions with numbers like that? The simple answer is: they get more careful about every decision they make. When they get more careful, they tend to spend less. When they spend less, they hire fewer people or lay more people off. Those people have less to spend.

The interesting thing here is that despite the erratic job growth number, the U3 unemployment rate (the index most widely used) is at a very low rate of 4.8%. Our Econ 101 professors taught us that an economy with 5% unemployment rate is fully employed. If it were only that simple. Tell that to the worker making close to minimum wage who doesn't have the skills for a better job, has a high level of skill for a job that doesn't exist or can only find part time work. The U6 unemployment rate, which accounts for part-time workers who would prefer to work full time in their field, is at 9.7%. This index tells a different and perhaps more telling story about the realities of the US economy; too many people working at jobs that don't pay the bills. For these folks, discretionary income is a concept not a reality.

NATIONAL UNEMPLOYMENT



Another way to get a clearer picture of the job numbers is to look at employment by business sector. Unfortunately, doing so makes things look even worse. For example, over 140,000 of the 287,000 jobs created in June were in Leisure and Hospitality, Retail Trade and Healthcare and Social Assistance. These are generally lower-paying jobs that can disappear quickly as things change. By contrast, manufacturers hired 14,000 workers, and gains in construction jobs amounted to zero. Another 15,000 were hired on a temporary basis, and the total hours per worked on a weekly basis was unchanged from a year ago at just over 34 hours. The key manufacturing index compiled by the Institute of Supply Management (ISM) has spent most of the past year in negative territory.

EMPLOYMENT

Concerns over slowing domestic growth and the prospect of recessions abroad is prompting employers to hire more 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.

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, have combined to keep just 62.7% of potential workers in active production.

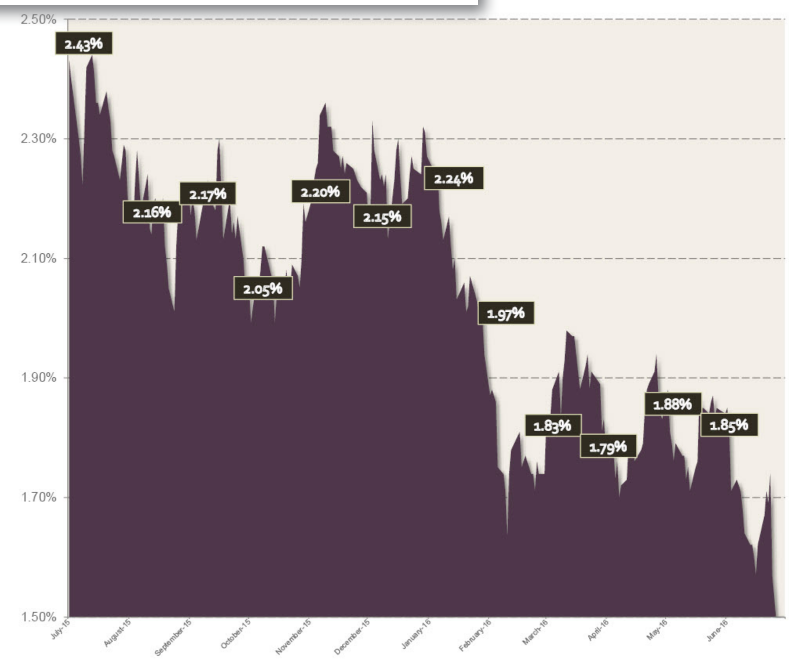
Wage growth is another problem that has dogged the US economy. While the general unemployment rate fell to 4.8% by the end of June, full-time, high-paying jobs are in short supply and wage growth overall is tracking at a rate of approximately 2.5%. For a worker making close to the minimum wage, that kind of growth is nothing to celebrate. This is one of the reasons why so many middle class workers feel left behind.

Ironically, many of the best-paying positions that are available go unfilled for lack of qualified candidates. 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 Q2 idling more wells, laying off more workers and slashing capital budgets. So, further job losses in that sector can be expected.

MONETARY POLICY

In December of last year, the US Federal Reserve Bank's open market committee finally pulled the trigger and boosted the Fed Funds rate by 25 basis points to .5%. While it had little immediate effect here at home, the rest of the world reacted, stock markets slid and the dollar strengthened against most of the world's currency. At the same time, the European Central Bank was sending interest rates into negative territory and was buying 60 billion Euros worth of bonds each month in its own version of QE. Not exactly a well-coordinated effort, but that wasn't Congress' idea when they created our central bank back in 2013. 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 action reduced uncertainty about the policy direction in the beginning, but now Ms. Yellen has backed off the clear talk and returned to more familiar cryptic language when discussing the Fed's future actions. Though, most experts

TEN YEAR US TREASURY YIELD
IN PERCENTAGE



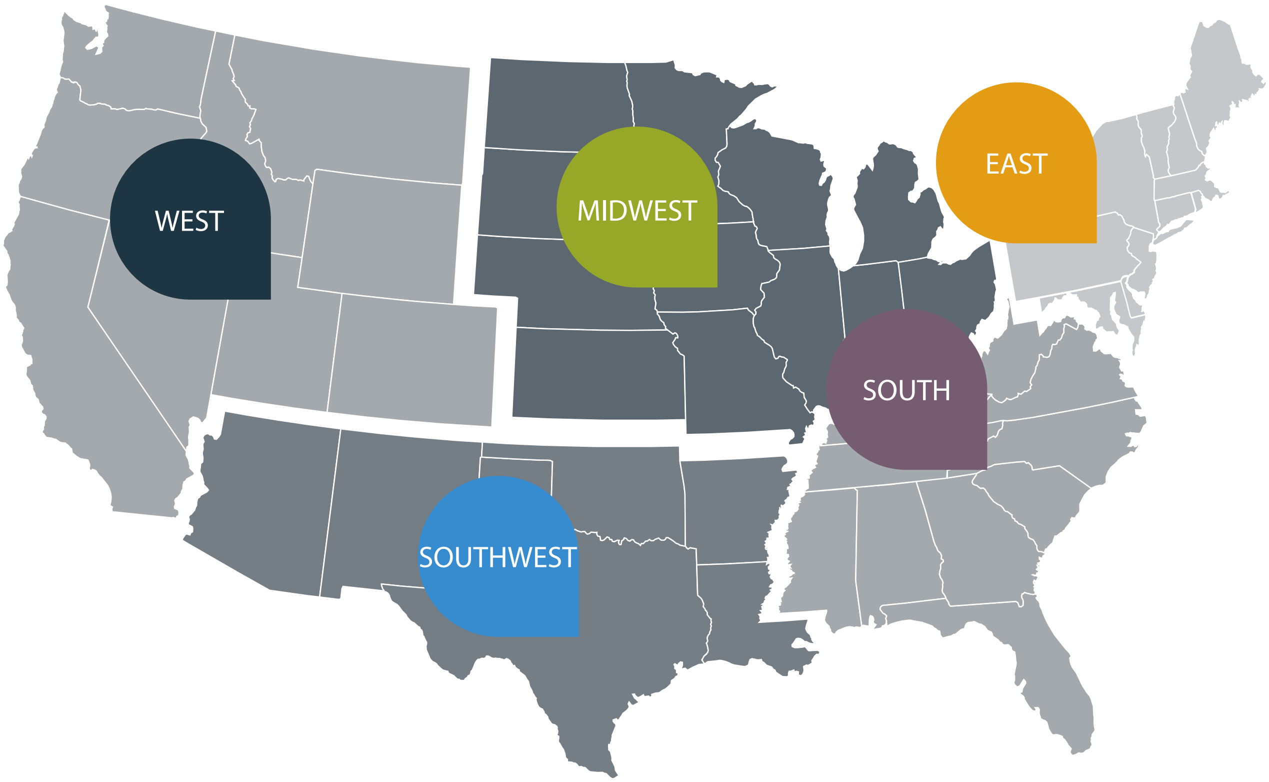
now agree that circumstances are too shaky around the world for the Fed to raise rates anytime soon. That may be the main reason why the Dow Industrials Average hit a record high on July 8th. Real estate borrowers have been relieved to discover that the Fed's initial rate hike had little effect on mortgage interest rates, and they should be even happier now, as it appears that the days of cheap capital will be with us a while longer, and mortgage interest rates may even move lower in the coming months. The yield on the 10 Year US Treasury Bill has moved to a record low under 1.5% of late. It's that rate that is used as the index for most mortgage loans made on commercial real estate. It probably also means that the danger of cap rate decompression, a very real concern as it relates to real estate valuations, is abated at least for time being because borrowers will still have access to capital at a rate less than current cap rates. When the Fed finally follows through with more rate hikes, 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. Keeping a close eye on what central bankers are up to around the world is a good idea. It seems that more drastic measures are being taken every day somewhere around the world, including the newest stimulative tool, negative interest rates. Imagine paying someone interest for the privilege of loaning them money. Sounds crazy, and it might be. But, it is also where over $10 Trillion has recently been "invested."

GLOBAL ECONOMY

Last quarter we described the global economic outlook as troublesome. As it turned out, we were wrong. It's worse than troublesome. It's downright scary and increasingly complex. The stakes are high and the outcome of the current global economic conundrum is anything but certain. 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 like Brazil and Venezuela that depend almost entirely on the export of raw materials and oil, are mired in recession with runaway inflation. Then came Brexit, the UK vote to leave the European Union. Few gave it a chance and the shock wave from the vote was instantaneous. Europe's political union in constant crisis mode these days and there is no governing body with the real authority to enforce anything. EU leaders and European Central Bank have been ineffective in terms of getting things on track. Sovereign debts are mounting, unemployment is persistently high dismal economic growth in Europe makes the US economic look positively dazzling. Concerns over deflation are driving the European Central Bank to send interest rates into negative territory. The bank is also buying up sovereign bonds and has even resorted to buying corporate bonds, an action that would be illegal in the US. Calls for austerity from nations swimming in debt been largely ignored, and the recent refugee crisis is exacerbating economic problems and reigniting nationalist fervor throughout Europe. Many credit concerns over immigration for the surprise passage of the Brexit referendum in the UK. If nothing else, that vote brought the differences between European nations back into the light. The fate of the European Union is uncertain at best, and that bodes well for the US commercial real estate market. For all our failings, the US is still considered the safest place to keep money in troublesome times. The flight to safety phenomenon has already driven US Treasury yields to all time lows. 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 sluggishly so, 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 operating 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 the Fed's 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 2016 to be another year of so-so economic growth and more of the same for commercial real estate. All things considered, there's no place like home.

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

Key Market Snapshots



LA NORTH
SAN GABRIEL VALLEY
ORANGE COUNTY
DENVER

PHOENIX
DALLAS/FT WORTH
HOUSTON

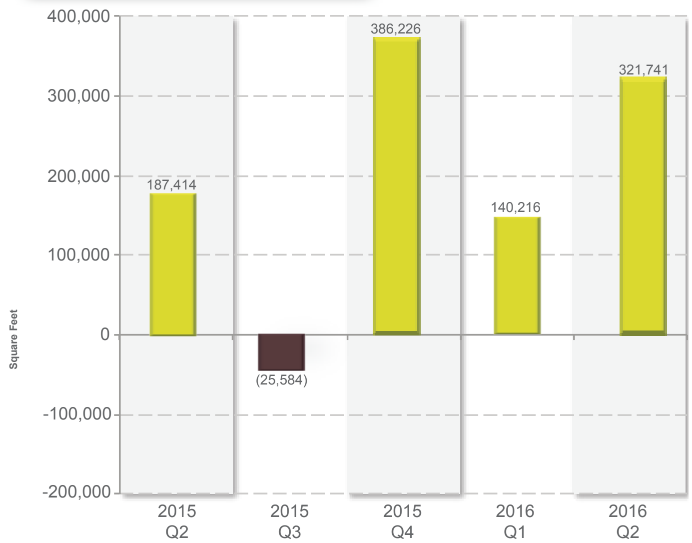
COLUMBUS
ST. LOUIS

ATLANTA
GREENVILLE/SPARTANBURG

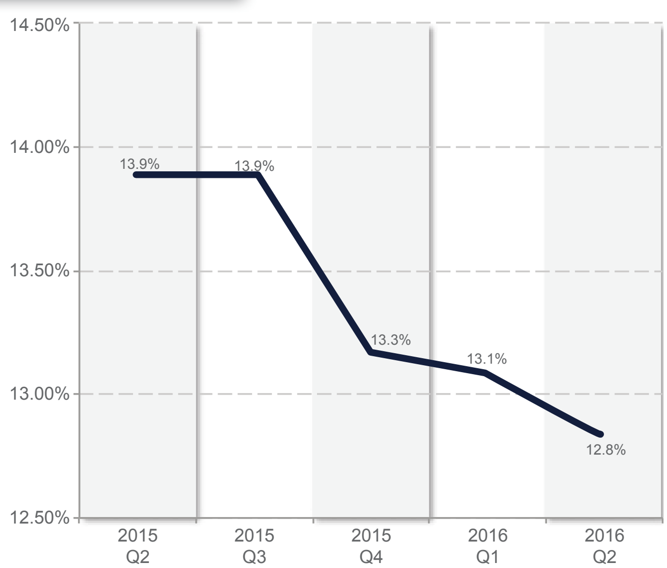
NORTHERN NJ
COLUMBIA/MARYLAND

LOS ANGELES - NORTH

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

Lease rate increases are the big news in the Los Angeles North office sector and not for the reasons you might think. Asking rents are escalating faster than vacancies are falling with several submarkets seeing double-digit increases on a year-over-year basis. The highest annual increases were seen in the Conejo Valley's Westlake Village submarket and in Encino and Studio City both in the San Fernando Valley. In Westlake Village, where year-over year rents rose 15.6%, vacancy actually increased to 9.3% in Q2, up from 8.9% in Q1 and from 7.7% compared to the same period last year. Encino lease rates have risen 10.6% year-over-year on a 60-basis point vacancy decrease to 8.5% in the current quarter. Studio City rates rose 10.1% year-over year as vacancy increased 90 basis points to 3.5%.

While leasing activity has continued at a brisk pace, there are several other dynamics at play in these markets. Foremost is simply very limited Class A inventory in submarkets such as Westlake Village and Encino. Studio City, with a rentable base area of just 845,000 square feet, has little to offer in any building class, but is strategically located near CBS Studios. Local tenants that need to be in Class A space in these locations are paying the freight while those that have some flexibility in building type or location are heading for more affordable nearby submarkets. For example, average lease rates in Westlake Village are running $31.92 per square foot, whereas just a few miles east, office space in Thousand Oaks is averaging $24.72 per square foot. At $33.72 per square foot, Studio City's average lease rate is among the highest in the region, but a few miles north in North Hollywood, rates average just $27.48 per square foot.

The sustained leasing activity – in the range of 1.4 million square feet for the region overall in each of the past three quarters – has resulted in solid

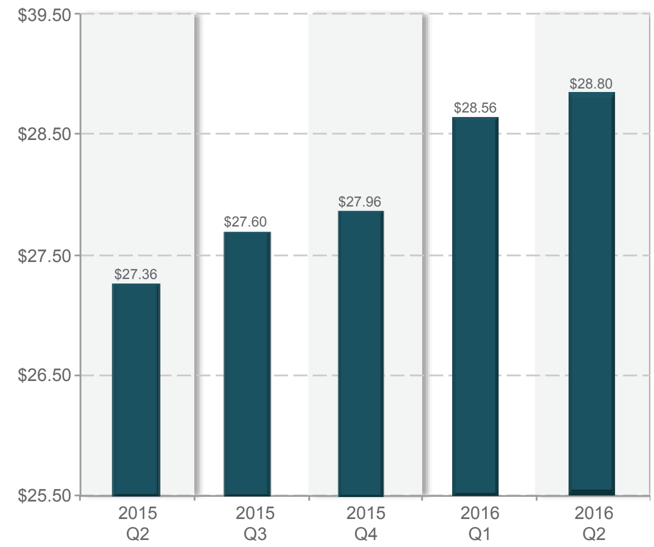
12.8%	$28.80	321,741	77,247,180	256,094
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

LA NORTH - TRENDING NOW
(continued)

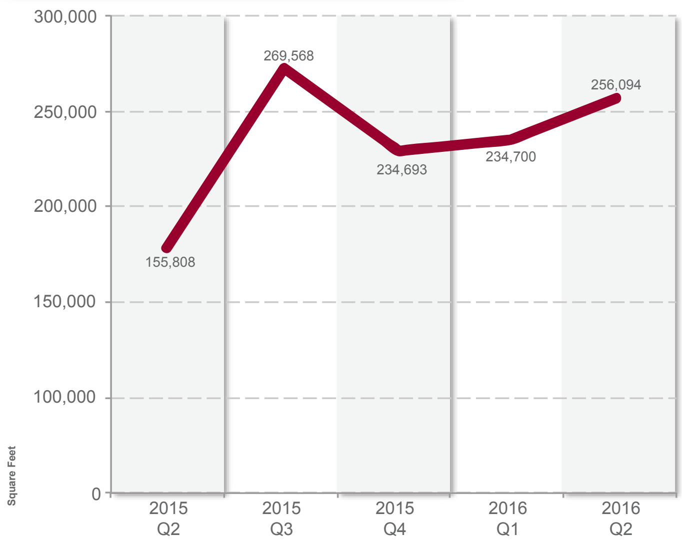
absorption. In Q2, net occupancy rose by 321,741 square feet. Overall vacancy declined to 12.8% in Q2, shedding 20 basis points during the period. A year ago, the overall vacancy rate was 13.9%, which reflects the ongoing healthy demand for office space throughout the region. Meanwhile, average asking rates for the region overall keep moving higher, but vary widely depending on submarket. In Q1, the average rate moved up by $.36 to $28.80. In the past year, that rate has moved up by 5.2%.

It remains to be seen whether competition from neighboring submarkets will stem the lease rate increases in primary submarkets, but it is likely that we are seeing a rising tide that will lift all boats, including those in less favorable locations, at least through the end of 2016.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

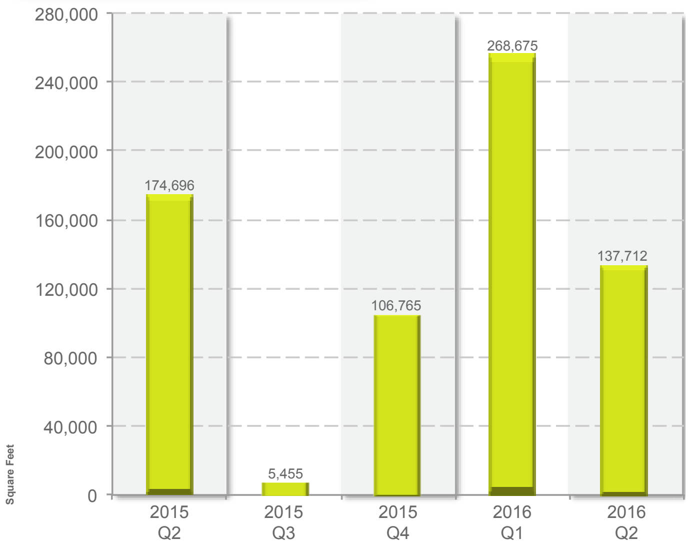


A LOOK AHEAD

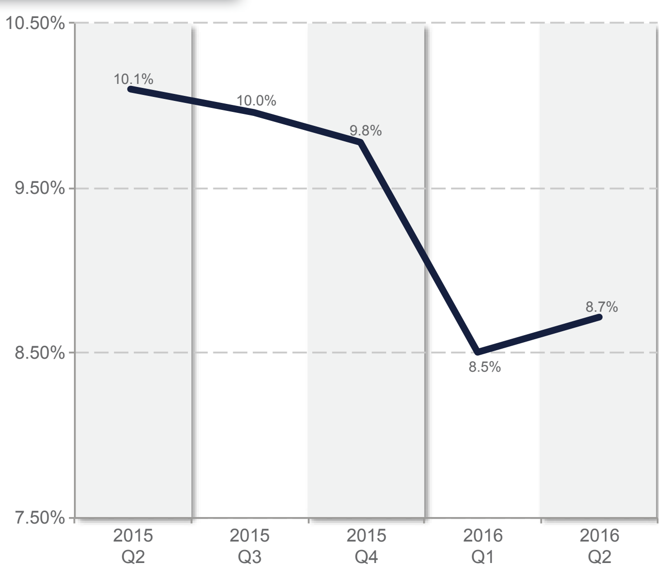
- Leasing activity should remain near current levels for the rest of the year
- Vacancy will continue its steady decline
- Lease rates will keep moving higher, but will vary widely by submarket
- Construction activity will be limited by limited supply and high cost of land
- Net absorption will be steady and consistent, but moderate in some submarkets due to limited supply
- More Class B and C buildings will be converted to creative space

SAN GABRIEL VALLEY

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

The San Gabriel Valley (SGV) area has a population of nearly 1.8 million in 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, Orange, Riverside and San Bernardino Counties. The region's base includes Class A buildings in Pasadena along with Class A office parks sprinkled throughout the Valley. The majority of properties are older Class B and Class C product, which include functional obsolete characteristics.. However, the region's wide variety of housing options appeals to all socio-economic levels, and makes the area a target for larger users looking to access a diverse workforce at a lower price point.

Employment growth is up due to a steady rise in overall economic activity throughout the Los Angeles Basin. This year, 406,387 square feet of positive net absorption has been recorded, with a gain of 137,712 in Q2. Much of the San Gabriel Valley is a small to mid-size-deal market with most transactions under 7,000 square feet, so net absorption performance requires a consistent high level of leasing activity. Fortunately, smaller users are becoming more active and demand from healthcare services and consolidating medical groups is picking up, in part due to industry changes precipitated by the Affordable Care Act.

With the exception of Pasadena, rent growth has been slow in the San Gabriel Valley. This alone is a problem for landlords, but starting in 2015, the Title 24 regulation on energy use took effect and has caused a substantial increase in tenant improvement costs to meet the new standards. The law is hitting the San Gabriel Valley hard 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 and its impact on rent growth is still difficult to quantify.

8.7%	$26.88	137,712	52,611,591	181,884
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

SAN GABRIEL VALLEY - TRENDING NOW (continued)

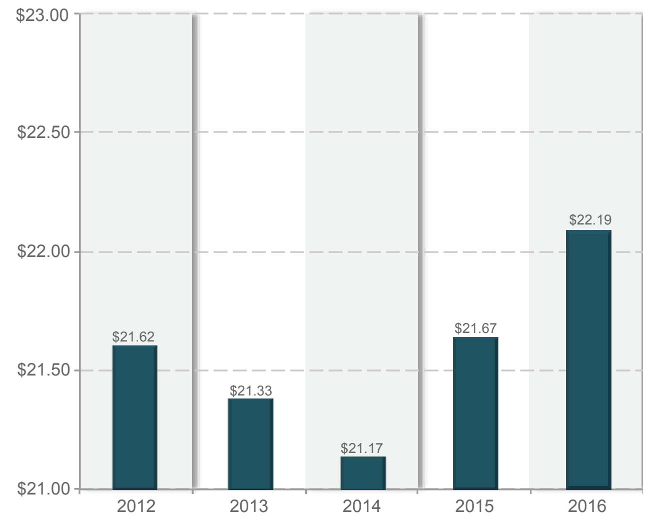
In Q2, the overall average asking lease rate for the entire San Gabriel Valley settled at $26.88, well under the $32.23 average for the entire Los Angeles region.

Vacancy in the region is decreasing across all building classes. By the end of Q2, the overall vacancy rate had fallen to a post-recession low of 8.7% on a base inventory of 52.6 million square feet. As in other markets around the US, the flight to quality is on. Most of the Class A space being absorbed is in Pasadena and space is leasing up faster than in East SGV. In fact, demand for smaller Class A spaces is forcing landlords to convert full floor layouts to multi-tenant configurations to get deals done.

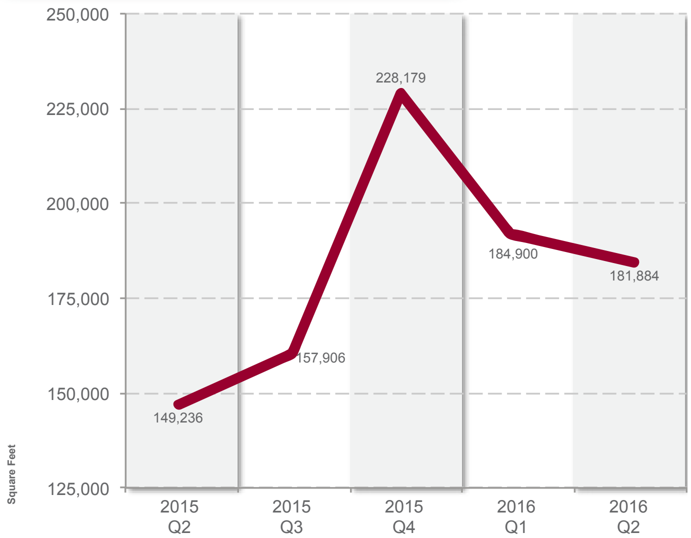
Development opportunities are scarce, and with so few sites available for ground-up projects, construction activity has been mainly limited to redevelopment and condominium conversions to satisfy demand for owner/user product. Any office space offered for sale under 15,000 square feet is in high demand. For example, in the Diamond Bar submarket, eight office condominiums up to 1,200 square feet each were sold in Q2 alone.

Global economic uncertainty along with increased government regulation are beginning to have its effect on the investment strategy of mid-sized office investment property owners, many of whom are opting to exchange into NNN retail deals or multifamily projects for increased safety in lieu of spending large sums for major capital improvements. Unfortunately, supply of those products is in short supply locally and that is sending some California investment dollars to other states in search of quality commercial product at a higher cap rate.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

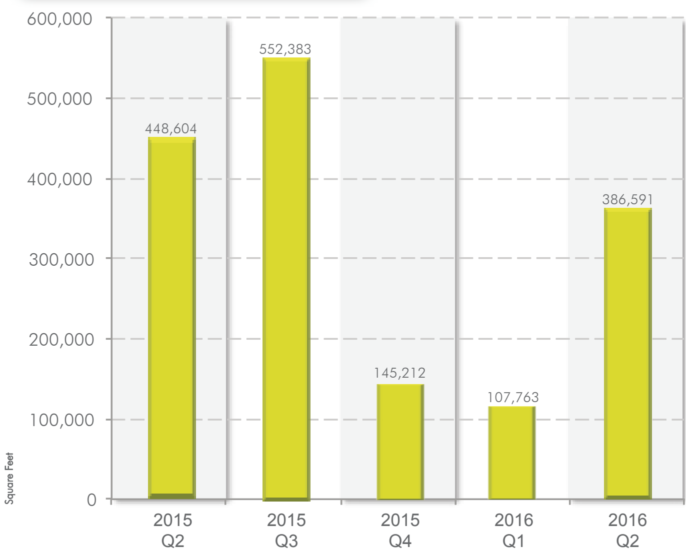


A LOOK AHEAD

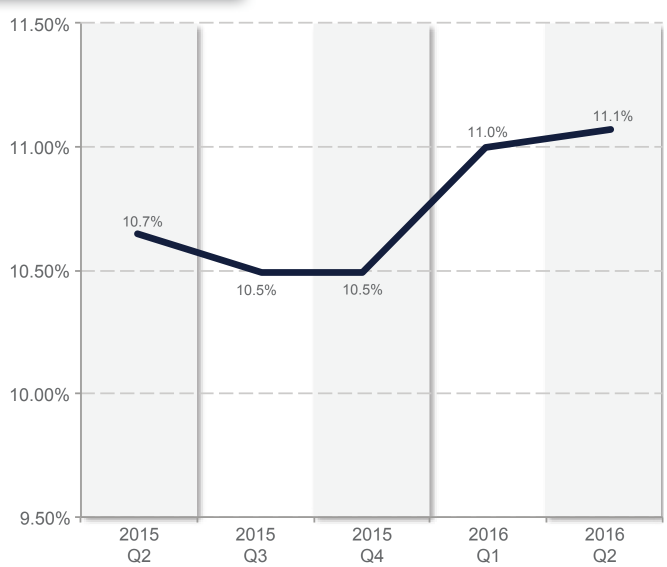
- Net absorption will be positive but moderate
- Vacancy will stabilize in the mid 8% range, but may spike temporarily as new product is delivered
- Developers will ramp up efforts to acquire and reposition Class B buildings to accommodate changing workplace preferences
- Asking rates will move slightly up through the end of the year
- Condo conversions will remain the main source of product to acquire for owner/users
- Supply of investment properties will start to increase, raising cap rates as a result of a better balance of supply and demand

ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

After a sluggish start early this year, demand for Orange County office space surged in the second quarter, posting the biggest gain in six quarters. Lease rates continued to climb in the largest submarkets, keeping the countywide average on pace to equal its all-time high. Demand intensified in the South County submarket, which is anticipating completion next year of nearly 1.8 million square feet of Class A high-rise and campus-style buildings.

Countywide, 11 buildings totaling 2.4 million square feet are under construction and ground-up development costs are reaching $600 per square foot. However, eight of those buildings are in the South County submarket, which also checked in with 338,315 square feet of positive absorption in the second quarter, driving that submarket's vacancy rate down to 9%. It was the third consecutive quarterly gain there, bringing net occupancy up by 713,176 square feet. The Irvine Company is under construction on six mid-rise buildings totaling 528,000 square feet and a 21-story high-rise. Simply put, South County is where the action is in 2016.

The Airport submarket, the Orange County's largest at 42.5 million square feet, has seen companies shed nearly 200,000 square feet of space in the last three quarters. Its vacancy rate was unchanged in Q2 at 10.8%. Asking rents there gained 10.4% year-over-year. But, the availability rate jumped to 17% due, primarily, to Broadcom's exit from Irvine's University Research Park. That one move puts nearly 900,000 square feet back on the market. The Airport also includes Newport Beach, Costa Mesa, Fountain Valley and south Santa Ana.

The North County submarket, with 14.1 million square feet of total inventory, rebounded in Q2 with a 126,606-square-foot gain in occupied space, dropping its vacancy rate to 10.5%. Year-over-year, net absorption in North County totaled 276,231 square feet, but the

11.1%	$28.80	386,591	111,453,181	2,404,520
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▲	▲	▲	▲	▼

ORANGE COUNTY - TRENDING NOW (continued)

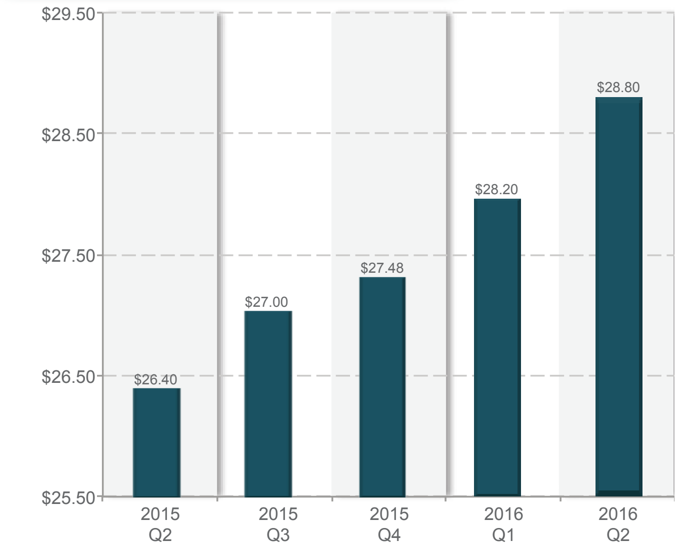
submarket, which includes Fullerton, Buena Park, Yorba Linda and Placentia, has yet to post more than two straight quarters of positive absorption since the recession.

Absorption in West County settled on the plus side in Q2, but over the last six quarters is 172,319 square feet in the red. Average rents are unchanged from a year ago. Despite 95,000 square feet of negative absorption in Cypress, the vacancy rate in this 8.9 million-square-foot submarket that includes Los Alamitos and Huntington Beach, was unchanged at 10%.

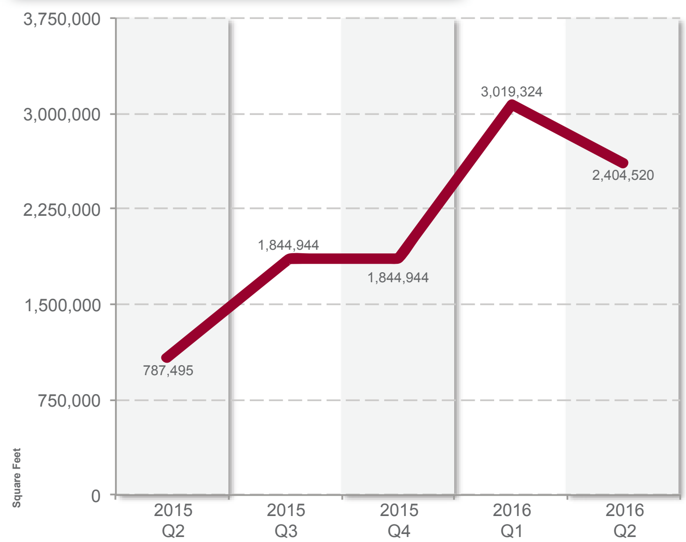
The 14.4% vacancy rate posted in the 22.4 million-square-foot Central County submarket, continues to be impacted by the 18% vacancy in Santa Ana, which accounts for 14.3 million square feet of the base inventory. Other cities in the submarket include Orange, where 7% of its 6.6 million square feet is empty, and Anaheim that posted a Q2 vacancy rate of 13.1% on a base of 7.4 million square feet.

Investors remain bullish on Orange County's Office market, especially for Class B buildings suitable for redevelopment to creative space to capture. Rents in that category have been rising quickly as demand from tech sector users looking to attract and retain millennial workers. Cap rates remain compressed for Class A and B stabilized assets, as well.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

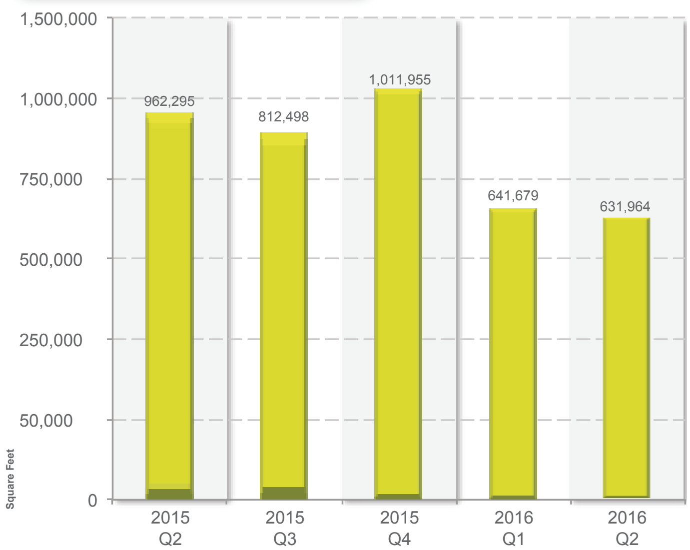


A LOOK AHEAD

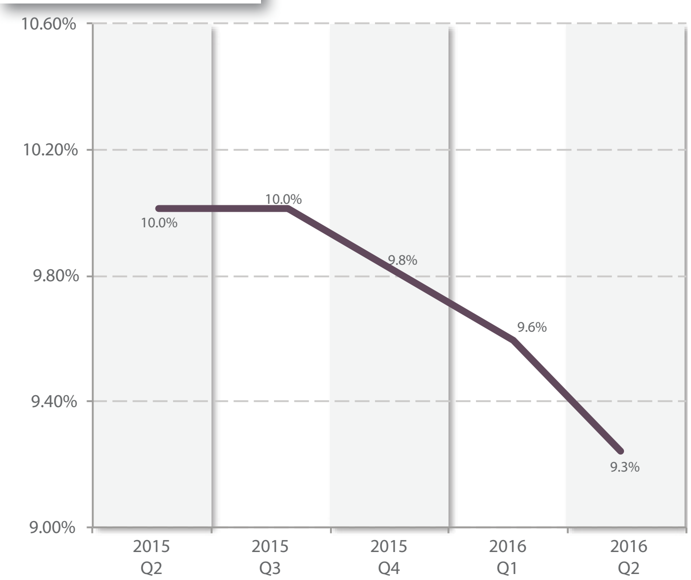
- Look for the biggest rent gains to remain in buildings offering creative space going forward
- Cap rates will remain compressed as long as interest rates remain near current levels
- Vacancy should continue to decline, but may tick up temporarily in South County as new product is delivered
- The unemployment rate will continue its decline as county job growth is expected to reach 42,000 in 2016
- Construction will remain concentrated in the South County submarket

DENVER

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

As we reported last quarter, the Denver office properties market is feeling the pinch of the energy sector slowdown. Upstream oil sector businesses have shed employees via mass layoffs, slashed capital budgets and shut down most of the country's active drilling rigs to offset revenue losses from a pricing collapse that began back in 2014. While prices have rebounded somewhat, the industry needs a much bigger boost to get things back on an even keel. With all the uncertainty in the global economy, that boost is not on offer for the short term, and Denver's energy sector will just have to keep plodding through until the eventual turnaround is manifest.

The fallout for Denver's office market is showing up in several ways. The amount of space offered for sublease has been rising for the past year. That has impacted rent growth, contributed to delays on new projects and cost thousands of good-paying energy-related jobs. To a degree, it helps growing businesses in other sectors, as tenants looking for space have more to choose from and gain some negotiating strength with landlords who were holding all the cards before the energy sector slowdown. Concessions like free rent and tenant improvement allowances are back on the table, and landlords are reinvesting in project amenities to make their spaces more attractive.

Space is also taking longer to get leased and landlords are now faced with lowering rental rates to speed lease-up times and compete with high quality sublease space. On the other hand, tenants who are subleasing excess space are able to recoup most of their costs, as demand is still strong in other business sectors. Most 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 quality of life potential.

9.3%	$25.11	631,964	195,899,146	4,175,717
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

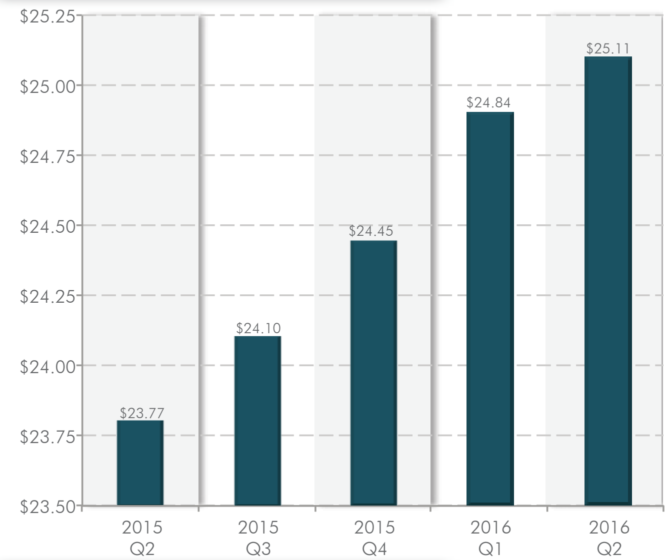
DENVER - TRENDING NOW (continued)

Net absorption was positive in Q2, but the difference by building class was significant. Class A posted a negative 9,548 square feet total for the quarter, while Class B saw gains in occupied space of almost 480,000 square feet. Even Class C outperformed Class A for the quarter with a positive 161,000-square-foot total. Variations in absorption are more profound when looking at it from a locational perspective. In Q2, the CBD generated negative absorption of 236,635 square feet, while a gain over 868,599 square feet was recorded in suburban submarkets. Year-to-date, overall net absorption stands at 1,305,000, but Class A contributed just 13% of that total.

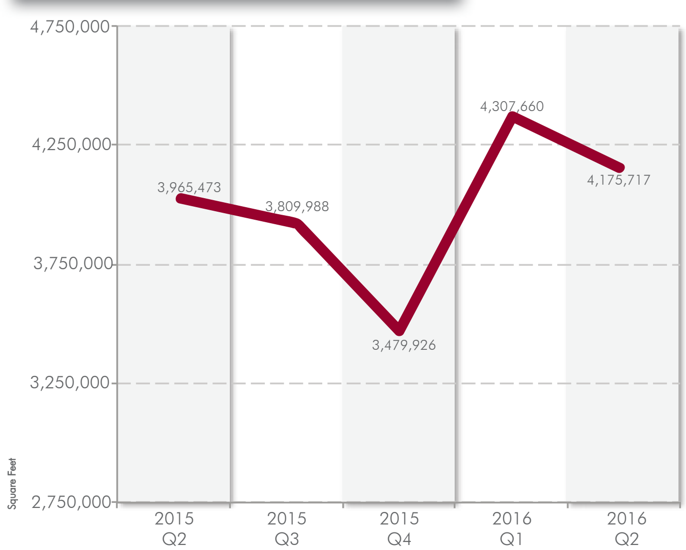
Average asking rental rates for all building classes moved up $.32 in Q2, ending the period at $25.11. That contributed to a year-over-year increase of $1.36 per square foot. Class A rents moved up 2% in the past four quarters while Class B rents rose by 7.5% in the same period. Vacancy, including all building classes, edged down 10 basis points to finish the quarter at 9.3%. Class A vacancy in Q2 ticked up by 10 basis points due to declining activity and an increase in sublease inventory. This will keep the pressure on landlords at the bargaining table a little longer, as tenants, especially those with strong credit, will be making more demands going forward.

By midyear, almost 580,000 square feet of new office space had been delivered, while another 4,176,000 square feet was still underway as Q2 ended. As the quarter ended, Denver's stock of office space has now reached 196 million square feet. The biggest project under construction is the 670,000-square-foot building at 1144 15th St, which is just 6% preleased.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

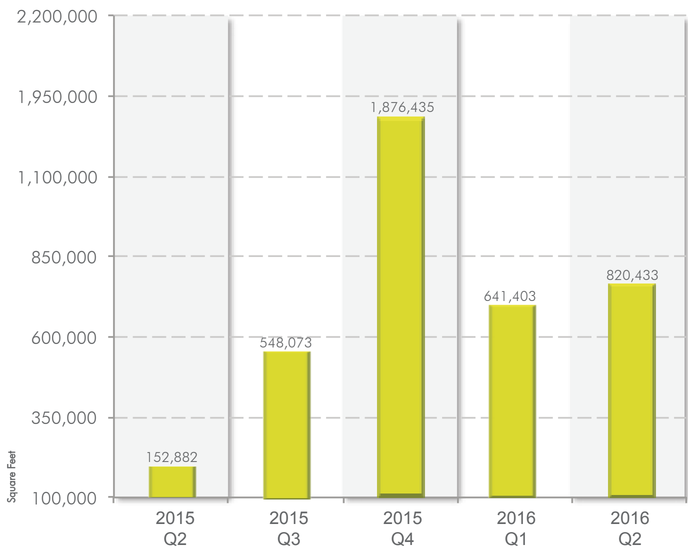


A LOOK AHEAD

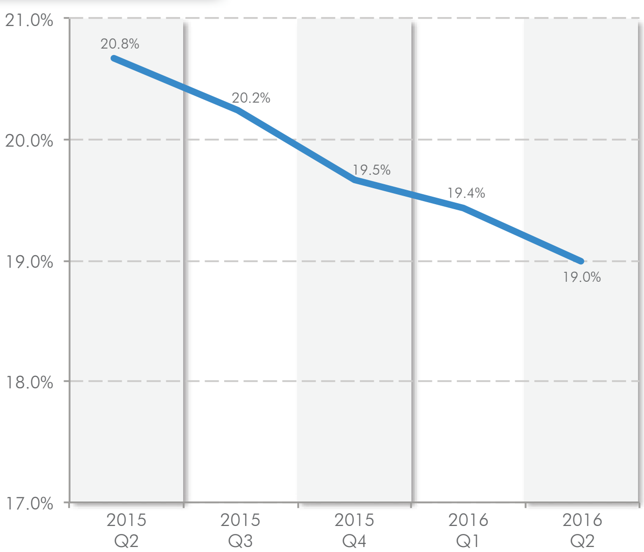
- Class B product in suburban areas will continue to produce most of the net absorption
- Lease rates are at or near a peak, at least until the energy sector recovers
- Vacancy will tick-up in some submarkets, especially where larger blocks of sublease space come to the market
- Job creation in the tech and business services will offset losses in energy
- Strong population growth will continue to boost the Denver economy
- New construction starts will decline, as the market needs time to absorb existing inventory and speculative projects already underway

PHOENIX

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Phoenix Office Market conditions continued to improve in Q2, keeping the sector on solid footing going into the second half of 2016. Absorption in some submarkets tracked lower, but overall absorption was stronger than it was in Q1. Overall conditions remain favorable, but the office market is not likely to best 2015 unless there are some bigger transactions inked in the third and fourth quarter.

Some believe the office sector is in a transition phase. Traditional Class A and B space is still available, but the new challenge is to market that space to a new type of office user; millennial-driven technology, information and lifestyle companies that are all the rage. They expect and demand something different in their workplace environment.

These types of users are not attracted to suburban settings with attractive landscaping, high parking ratios and close proximity to freeways. They're looking for second or third generation properties that have artistic or historic merit, located close to urban cores and street transportation. These are not frivolous requirements. Rather, they reflect the current mindset of young companies in terms of the environment they feel will attract and retain employees. Smart building owners are repositioning their properties even if they don't have the location or off-beat vibe. Instead, they are appealing to tenants by offering open collaborative space, entertainment options and cafes to better fit the needs of the changing tenant mix.

Vacancy levels dropped 40-basis points to 19.0% in Q2. This is the lowest level since Q2 2008. However, vacancy varies widely amongst the major submarkets.

19.0%	\$23.79	820,433	85,587,238	1,307,326
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▲	▲	▼

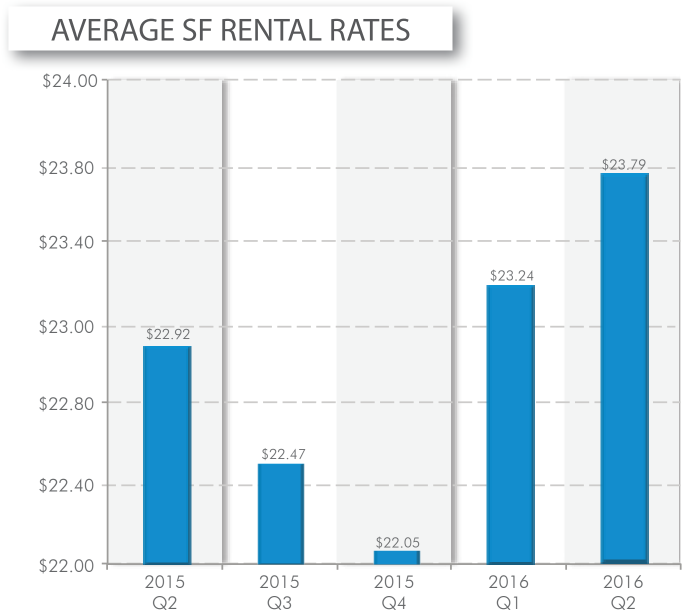
PHOENIX - TRENDING NOW (continued)

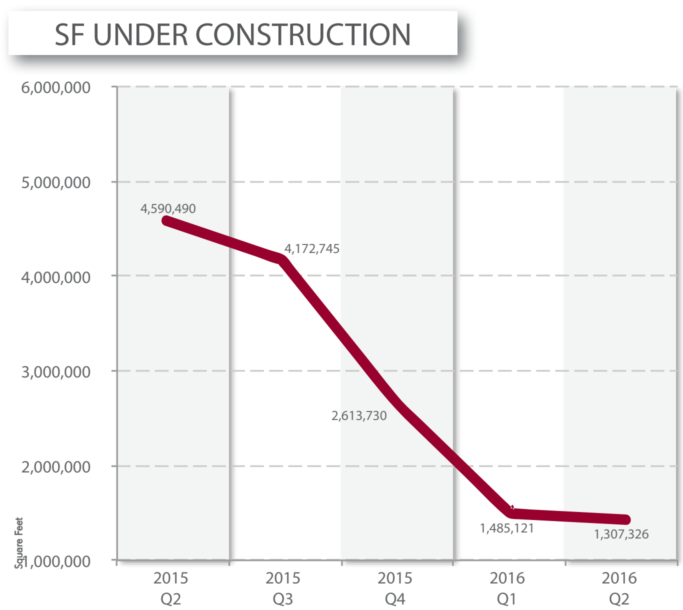
The Downtown, with over 6.5 million square feet of space, posted a vacancy rate of just 15.3%, while Midtown vacancy has a vacancy rate of 23.2 million square feet on a base of 9.6 million square feet. Scottsdale Airpark is running closer to the overall rate, with vacancy at 18.4% on a base of 8.2 million square feet.

Net absorption increased by 820,433 square feet this quarter and by 1,485,495 square feet year-to-date. The Tempe submarket posted the highest gain in occupied space for Q2 at over 501,000 square feet. Deer Valley Airport and Chandler were also in positive territory with gains of 118,000 square feet and 117,000 square feet respectively. However, Midtown, the 44th Street Corridor, Airport Area and Northwest Phoenix experienced negative occupancy growth for the period.

Construction remains strong. Over 1.3 million square feet of office space is currently under construction. Nearly 1.5 million square feet has been delivered since the beginning of the year. Rental rates increased by 1.6% overall to $23.79 per square foot. The Camelback Corridor submarket has the highest price per square foot at $29.72.

In the largest lease transaction of the quarter, Bank of America leased 93,348 square feet at Pinnacle in Kierland III, 14646 N. Scottsdale Rd., Scottsdale. The top sale of the quarter was a $24.4 million sale of the 197,846-square-foot Corporate Center of Kierland, 14635 N. Kierland Blvd., Scottsdale. Price paid per square foot was $225.78.



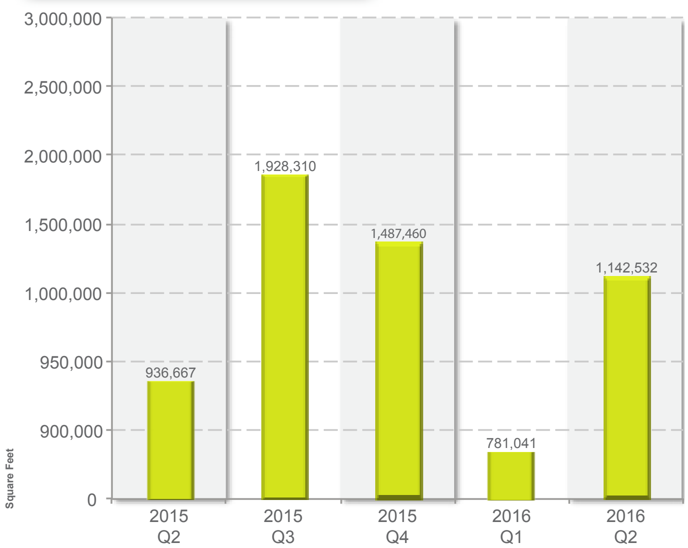


A LOOK AHEAD

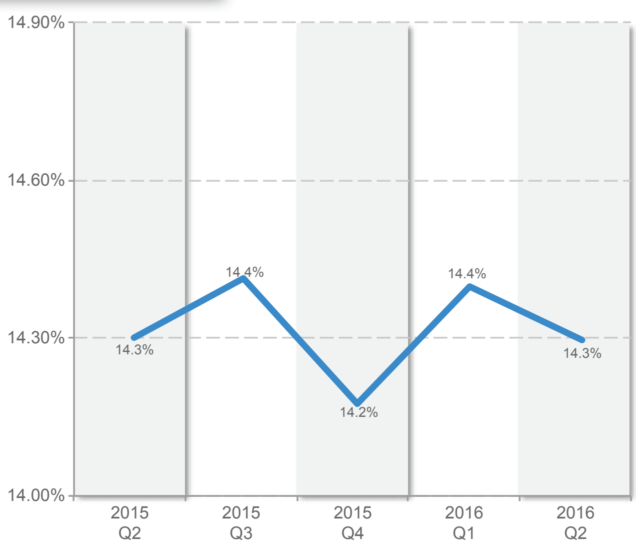
- Gross activity will remain steady, but average transaction sized will decrease
- New deliveries will continue at current pace
- Lease rates may hold near current levels for the balance of the year
- Vacancy could drop to single digits by the end of 2016
- Investor interest in Phoenix will remain strong, as it offers more buying opportunities than in tighter markets like Southern California

DALLAS/FT WORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Dallas/Fort Worth (DFW) region is, quite 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. Key to its economic expansion is DFW's population growth that includes the wide variety of education and skill levels expanding companies are looking for. Despite high levels of in-migration, the unemployment rate currently stands at just 3.5%. The state of Texas has added more jobs since the last recession than any other state in the US, and the DFW area has been a primary beneficiary of that growth.

That trend is ongoing, as large corporate users like Toyota, Liberty Mutual, JP Morgan Chase, FedEx and others keep coming to North Texas to execute long-term growth strategies. They like the idea of being able to expand their operations without leaving the area. In just the past 12 months, there have been more than 30 corporate and regional consolidations to and within the North Texas area. Add the business friendly environment fostered by the state and local governments and it's easy to see why the area is doing so well.

Office vacancy has been vacillating due to periodic delivery of new office product. In Q2, the vacancy rate fell by 20 basis points to 14.3% after moving by the same margin in Q1, in part due to the addition of another 1 million square feet added to the base inventory in Q2 and over 1.8 million square feet of deliveries back in Q1. Over 11.2 million square feet of office space was still underway as Q2 ended. In all, the region added almost 6.5 million square feet of new space in the past year. Unlike infill markets in San Francisco, Los Angeles

14.3%	$23.76	1,142,532	355,925,994	11,254,288
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

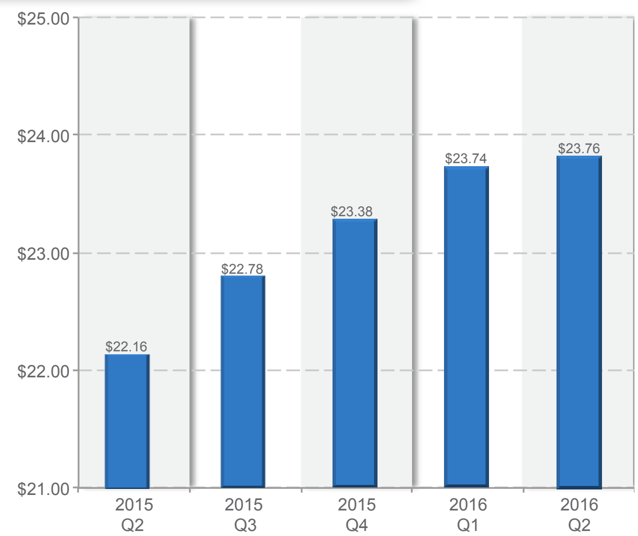
DALLAS/FT WORTH - TRENDING NOW (continued)

New York, land at a workable price 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 and price points.

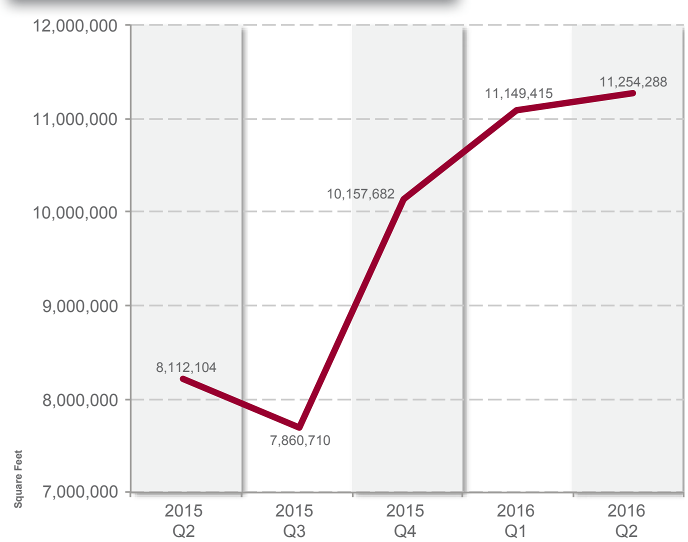
Net absorption topped 1,142,532 square feet for Q2. Suburban submarkets are still seeing the bulk of the occupancy growth in Class A product, which is where the biggest corporations are choosing to locate. In particular, the Legacy Business Park in Far North Dallas/North Plano is the most active office market in terms of major campus construction. 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 1.3 million square feet of net absorption in Q2 occurred in the suburbs, while the CBD accounted for a negative 164,803 square feet. Big moves in Q2 included 7-Eleven's headquarters move into 325,000 square feet, and GEICO's lease of 232,710 square feet at 2280 N Greenville Ave.

Overall asking rental rates have been moving higher, with Q2 posting another increase of $.06 to end the period at $23.76. Class A rents now average $27.68, followed by Class B at $20.46. Landlords are pushing rents higher across the board, including lease renewals, as tenants face increasingly short supply. It's now commonplace for a renewing tenant to get hit with a rent increase of up to 25%. Construction costs have also increased and landlords are pushing back hard on tenant concessions like free rent and interior finishes costs.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

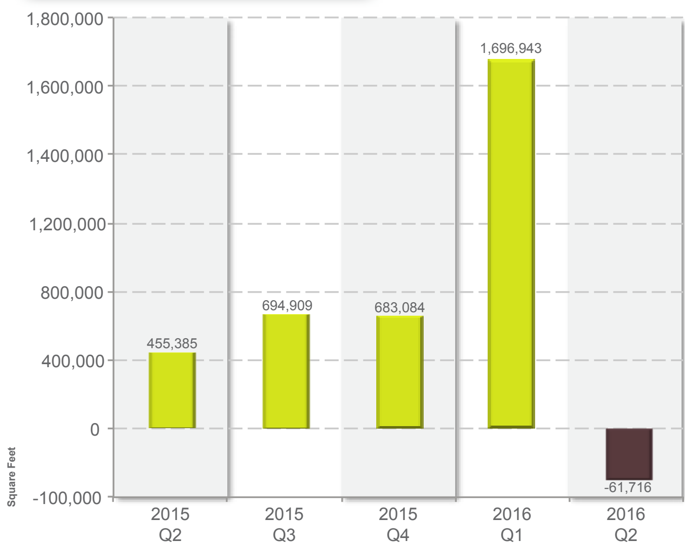


A LOOK AHEAD

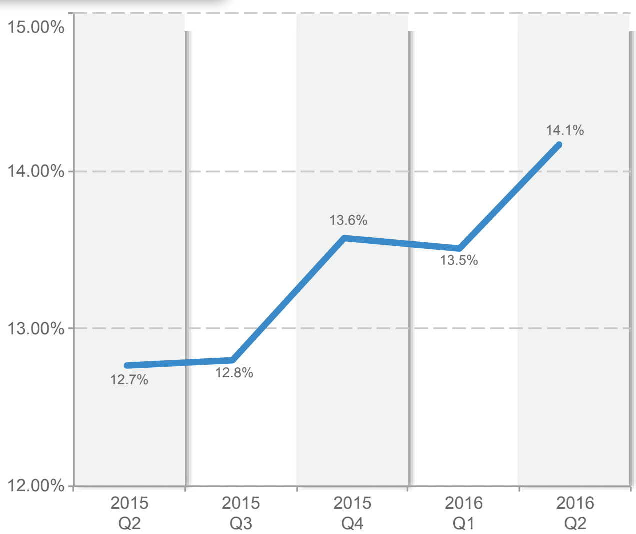
- Tenants looking for large blocks of space will have to compete for the best locations
- Robust net absorption is projected to continue well into 2017
- Vacancy will stay near current levels due to high levels of construction
- Highly competitive investment demand will keep cap rates compressed in the 5% range for properties leased to strong credit tenants
- Some tenants will push for shorter lease terms to time a possible correction
- Average asking lease rates will move up by 3% to 4% in 2016

HOUSTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Houston's office market continued to suffer from the ongoing crisis in the energy sector. While the price of a barrel of oil hovers near $50 per barrel, recent price gains have not been enough to change the dynamics of the office market. The slow recovery has the entire Houston economy feeling the pain. Energy industry giants like BP, Chevron and Schlumberger have been forced to slash capital spending and trim payrolls by laying off workers. Houston's unemployment has risen to 5.5%, up from 4% just a year ago.

While leasing activity in other sectors has helped stabilize market volatility, Houston is still an oil town and the oil business needs to turn itself around before the overall economy can do the same. Energy job losses continue to impact retail spending and the housing market. In Q2 other sectors did the heavy lifting, contributing the bulk of the period's 2.9 million square feet of leasing activity. The lease making the biggest difference this year is the 303,197-square-foot deal inked by the American Bureau of Shipping at CityPlace 2 in the Woodlands submarket. Other major transactions include a 75,920-square-foot lease to Dow Chemical at Deerwood Glen Business Park and a 52,000-square-foot lease to Aetna at Three Sugar Creek Center.

Class A suburban projects in the Energy Corridor along the Katy Freeway, Westchase District and Greenspoint submarkets are seeing the bulk of the vacancy outside the CBD. A dramatic vacancy jump occurred in the Energy Corridor in Q1 as Conoco Phillips put the entirety of Energy Center Four, a new 597,628-square foot space, on the market for sublease. That forced the vacancy rate for Class A in the Energy Corridor to over 41%. Westchase District's Class A vacancy rate moved up to 28.3% by the end of the quarter, mainly due to energy industry downsizing from

14.1%	$27.70	(61,716)	302,622,968	4,308,278
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▲	▼	▼	▲	▼

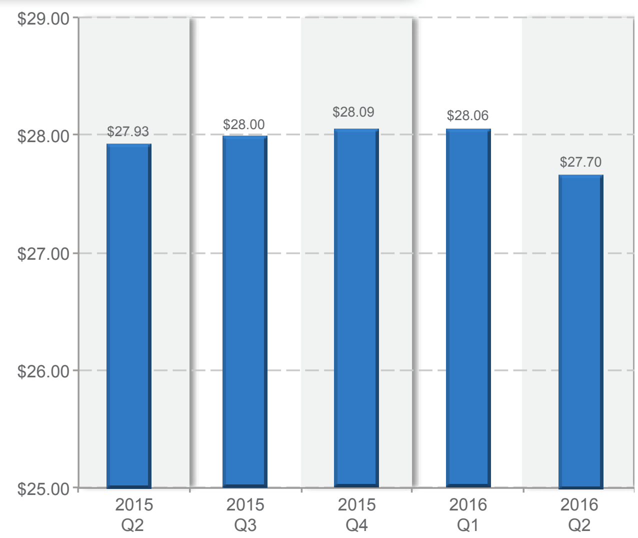
HOUSTON - TRENDING NOW (continued)

the likes of Statoil, NOV and Phillips 66. Class A vacancy in the CBD is faring better, posting an 11.9% rate by the close of Q2. However, more large blocks of sublease space coming back to the market in the next several months could drive that rate higher. For the overall Houston market, the vacancy rate for Class A space across all submarkets moved up 140 basis points in just one period to finish Q2 at 16.1%.

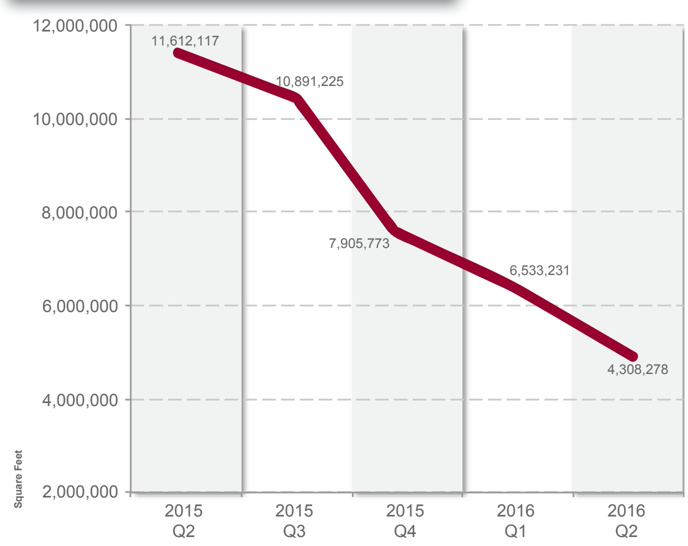
Class B space, on the other hand, is faring much better. Vacancy in Class B was unchanged from Q1 and up just 20 basis points in the last year, ending Q2 at 13.9%. Well-located suburban buildings are seeing the most action, as Class A tenants looking to control occupancy costs continue to focus on Class B assets. They are looking for bargains and landlords are forthcoming with generous concession packages to compete for a thin supply of qualified tenants. In turn, Class A building owners are getting more aggressive by lowering rates and offering similar concessions. While many energy tenants are downsizing to cut costs, non-energy tenants, still in growth mode, are reaping the benefit of lower rates, free rent and big tenant finish packages.

Due to the upset in the energy sector, the overall average asking rental rate fell another $.36 to finish the quarter at $27.70. The Class A rate fell $.38 to $33.97, while the Class B rate fell just $.03 to end Q2 at $21.38. Net absorption has slowed considerably, but in Q2 managed to shed just 61,716 square feet in net occupancy despite energy sector contraction. In Q1, over 1.6 million square feet of positive absorption was recorded, but some of that space may well show up as available for sublease in the coming quarter. Q2's negative result marks the first quarter of negative absorption dating back as early as 2005, an impressive run at the least.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

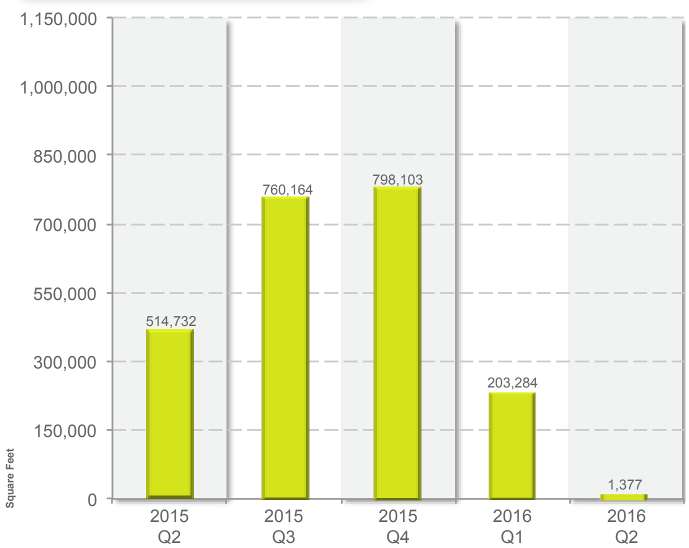


A LOOK AHEAD

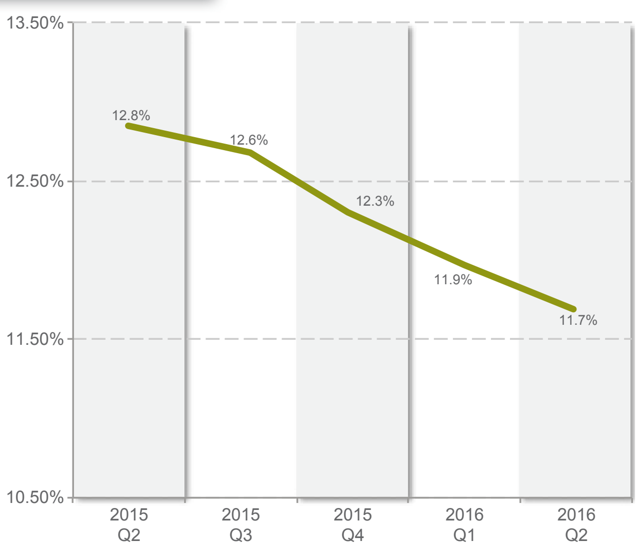
- Net absorption will remain in decline for the next several quarters
- Vacancy will keep moving higher as more sublease space is added to available inventory
- M&A activity will increase in the energy sector, which will add to sublease inventory
- Rental rates will decrease slightly but effective rates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

COLUMBUS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The local economy in Columbus, Ohio remains strong and is known for its remarkable consistency and balance. No one business sector accounts for more than 18% of overall economic activity. The unemployment rate at the end of Q2 stood at 4.1%, well below state and national levels. In 2015, the region ranked fifth amongst US markets in attracting new and expanded corporate facilities users. That expansion is key to the further growth of the local economy by adding to already high levels of confidence in the region from both users and investors. With its central location, access to Interstate highways and inland ports, and a population of over two million residents, Columbus has become one of the most desirable and reasonably priced business destinations in the Midwest.

Most office submarkets, specifically downtown, are seeing vacancy rates move lower. As a result, landlords are pushing lease rates higher and reducing and offering fewer concessions to attract new tenants. Downtown Columbus is healthier than it has ever been. The residential population has increased by almost 35% since 2008, pushing apartment occupancy rates to 96%. That means the work force for expanding companies is nearby, one of the big reasons employers are migrating back to the urban core. Owners of suburban properties are not in as strong a position, as they are concerned over the ongoing trend for expanding businesses to move closer to the downtown area. Nationwide Insurance recently moved over 3,000 employees to its new 373,000-square-foot facility in the Grandview Yard complex close to downtown.

Overall, the vacancy rate fell 20 basis points to finish Q2 at 11.7%. A year ago, vacancy stood at 12.4%. Vacancy is lowest in Class A properties at 9.2%, while it runs somewhat higher for Class B at 13.6%.

11.7%	$21.14	1,377	31,943,398	806,455
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

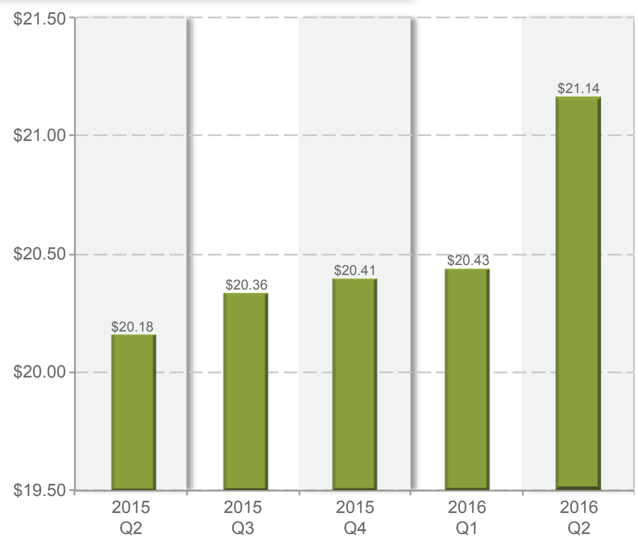
COLUMBUS - TRENDING NOW
(continued)

Office vacancy downtown has been pushed to historic lows as new financial, professional and tech firms have located there to be closer to the growing population of younger workers.

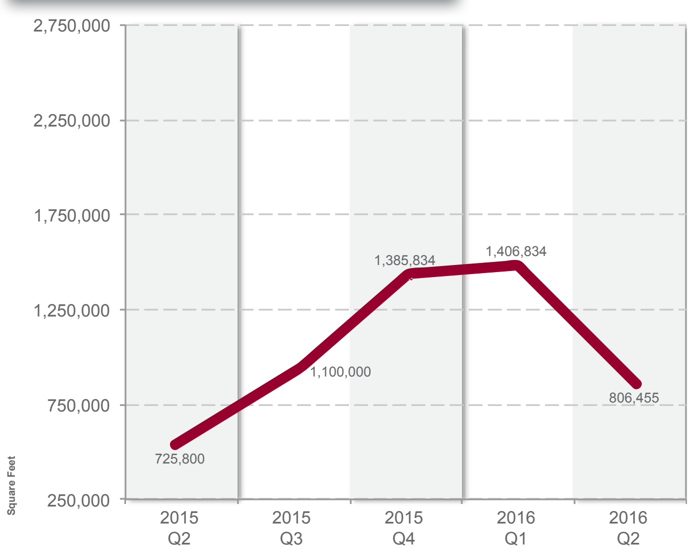
Net absorption has been positive for several years and that trend is ongoing. But, Q2 was a quieter period, as overall net absorption flattened out to just 1,377. Year-to-date the market has registered a gain in occupied space of 216,028 square feet. The Downtown South submarket led the region in absorption for the quarter with a total of 71,412 square feet. Significant move-ins for the period included Baker Hostetler's 67,583-square-foot lease in the Downtown South submarket, and Lancaster Colony's new 57,653-square-foot lease in Westerville.

At the end of the second quarter, 800,000 square feet remained under construction. The Easton and Capitol Square submarkets account for the bulk of that activity. Developers are still bullish on ground up development and redevelopment projects downtown, as they see the current trend continuing. Companies that have already made big moves to the downtown area include ODW Logistics, Aver Informaties, CoverMyMeds and Cross Chx. Developers of downtown projects can also take advantage of 100% tax abatements for up to 15 years, which lower operating costs and make new projects more competitive with older buildings.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

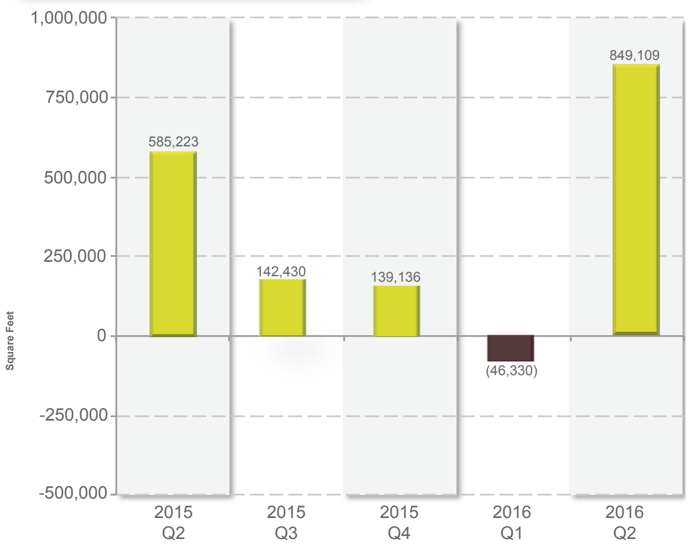


A LOOK AHEAD

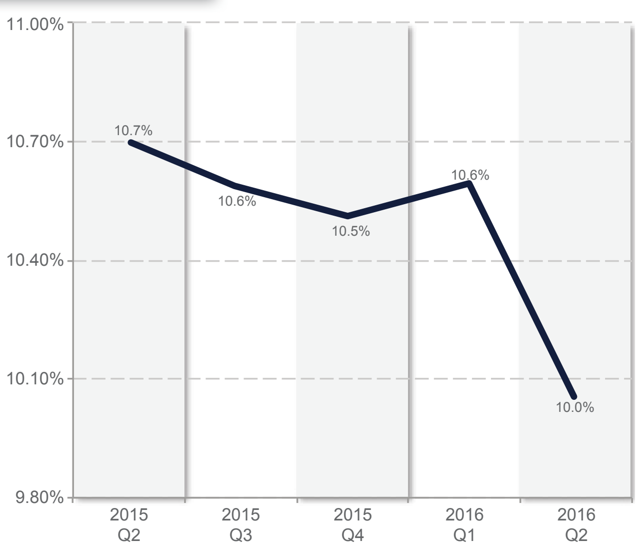
- Leasing activity should accelerate later this year as projects such as Bridge Park in Dublin are delivered
- Net absorption will be light as the market rebalances after new product is delivered
- New deliveries could push the vacancy rate up slightly by the end of 2016
- Average asking lease rates will move slightly higher in the next several quarters
- Owner/user sales prices will keep setting new record highs due to lack of supply
- Construction will increase by as much as 25% as new downtown and in suburban projects get underway in the next 3 to 6 months

ST. LOUIS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

St. Louis' 130-million-square-foot office market picked up the pace this quarter after a sluggish start to the year. Net absorption picked up, vacancy moved sharply lower, while the average asking rental rate moved slightly lower. The overall regional economy remains 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 in the past year, and General Motors has been attracting new suppliers to the area. As we reported last quarter, the proposed redevelopment of the 295 acre Chrysler land site was welcome news. The new project, which is expected to attract a variety of office and industrial uses, should generate up to 1,500 new jobs. The unemployment rate in St. Louis fell another 20 basis points during the last three months to 4.5%, well under the national rate. The financial and professional & business services sectors are seeing the biggest employment gains, with annual workforce increases of 4.2% and 3.3%, respectively.

After posting slightly negative net absorption in Q1, gains in net absorption in Q2 spiked to 849,109 square feet. All building classes performed well during the period. Class C accounted for over 265,000 square feet of the total, while the Class A absorption hit 263,805 square feet. Class B led the way at 320,086 square feet. Of note is the fact that suburban markets accounted for nearly 86% of the gains for the quarter.

Absorption remains strongest in the Clayton and North County submarkets, but the entire region has been posting gains in occupied space. The biggest move-ins for the quarter included the 36,736-square- foot lease to Southern Graphics Systems at Westport Summit, another Boeing lease of 35,360 square feet at The Citadel, and a lease for Science Applications International Corporation

10.0%	$18.13	849,109	130,989,677	1,149,500
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▼	▼	▲	▲	▲

ST. LOUIS - TRENDING NOW (continued)

square feet at Creve Coeur Center IV. The largest lease signing in Q2 was for 210,000 to World Wide Technology in the Central County market.

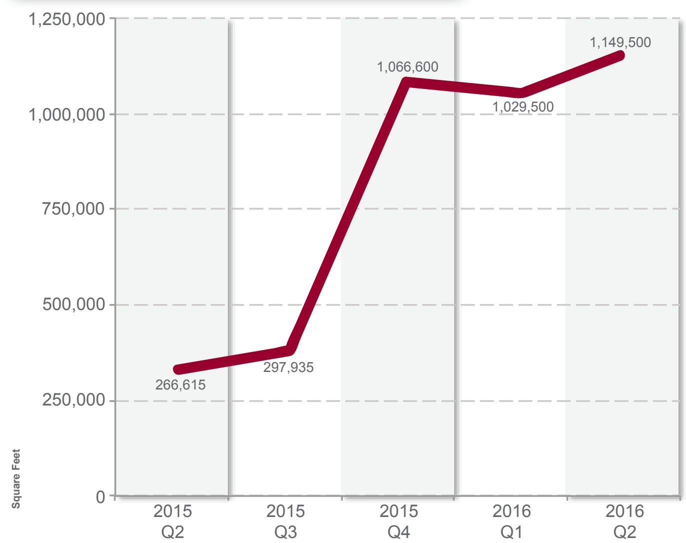
Only one new building totaling 5,000 square feet was delivered in Q2, bringing the total square footage delivered in 2016 to just 56,600 square feet. Another 1,149,000 square feet is still under construction. The two largest projects currently in the pipeline are the BJC and Washington University Tower, a 510,000-square-foot building that is fully leased, and the World Wide Technology Headquarters building at 210,000 square feet, also fully committed. The planned expansion of major employers like Enterprise Holdings and Centene Corporation should continue to fuel new construction, as big corporate moves generate new jobs and demand for new space.

Vacancy fell substantially in Q2, as might be expected given the lack of new deliveries. The vacancy rate for all classes combined declined by 60 basis points to 10.0%. Class A vacancy stands at 8.2%, while Class B has fallen to 12.2%. Central business district vacancy is running at 15.9%, nearly double the rate of suburban markets. This time last year, the overall vacancy rate was 10.7%.

Average asking rental rates haven't moved significantly in the past two years. In Q2 of 2016, the asking rate ended up only $.12 compared to the end of 2014. In Q2, the average rate declined by a nickel to finish the period at $18.13. The class A rate fell $.34 to $21.85 in Q2, its second consecutive decline, while class B moved down just $.02 to $16.67. Suburban office rates continue to outperform the CBD in all building class, posting a Q2 average of $18.67, which is $2.37 above the central

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

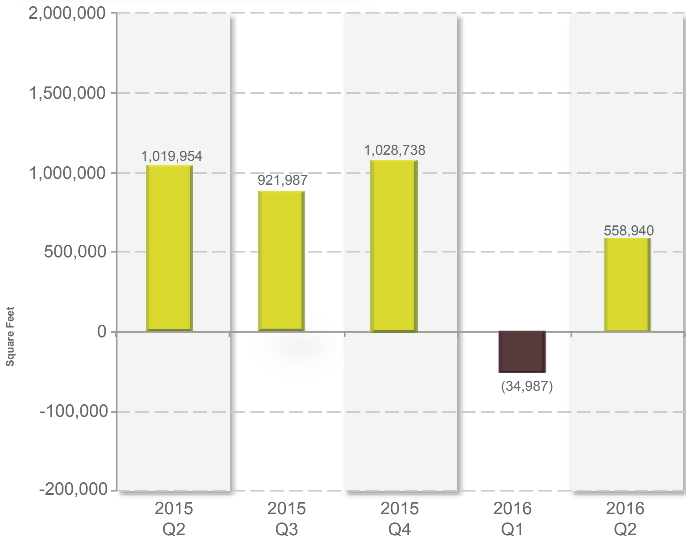


A LOOK AHEAD

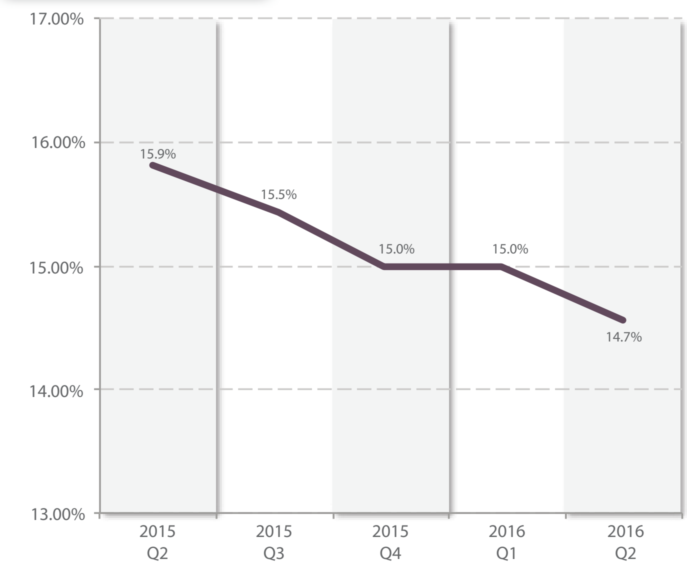
- Consistently strong leasing activity and limited construction will keep vacancy moving lower
- Single-digit vacancy in suburban Class A product will limit options for expanding tenants
- Absorption should end the year in positive territory, due to a very strong second quarter
- Asking lease rates will remain in the $18 to $19 range for the next several quarters
- Development activity will remain limited to build-to-suit projects
- Expect vacancy to move slightly lower by the end of 2016

ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Atlanta office market continued to strengthen in Q2. The region is attracting young college graduates from the best universities around the country, including nearby Georgia Tech, University of Georgia and Alabama. Atlanta presents many opportunities for these new entries to the workforce, including being more affordable than other major metro areas like New York and San Francisco. Expanding companies, especially those in the tech sector, are relocating to Atlanta to gain access to these workers who are attracted to its burgeoning live-work-play lifestyle opportunities. State, county and local governments are all also pitching in to make Atlanta home to growing businesses by offering numerous tax incentives for job creation. Tax abatements lasting up to 10 years are available depending on business type and the wage level of new jobs.

In Q2, Atlanta's office market posted 558,940 square feet of net absorption, bringing the year-to-date total gain in occupied space to 523,953 square feet after a nominal negative absorption result in Q1. In 2015, roughly 3.7 million square feet of gains were recorded. Class A absorption led the way in Q2, adding 257,516 square feet to the total. The vacancy rate moved lower as a result, falling another 30 basis points to 14.7% overall. Class A vacancy stood at 14.1% as the quarter ended, compared to the Class B rate of 16.4%. However, the lack 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.

Leasing activity reached nearly 2.5 million square feet in Q2, but higher rates throughout the region are having a sticker shock effect, especially for those tenants that signed existing leases when rates were much lower. As a result, more tenants are making changes to their existing

14.7%	$22.46	558,940	209,371,221	4,341,103
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

ATLANTA - TRENDING NOW (continued)

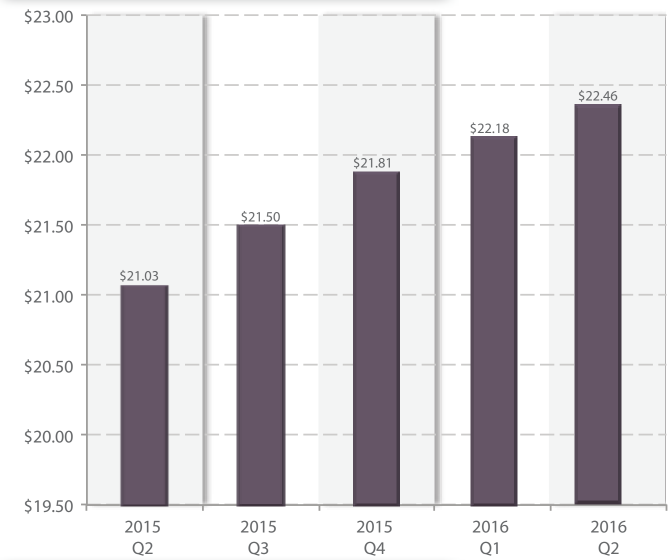
locations and settling for lease renewals. Higher rental rates are making landlords happy, but expansion plans and net absorption in the coming quarters may be negatively impacted. Class B buildings may get a needed boost as a result, as some tenants may shift their focus to lower cost options. Also, developers will likely look to acquire Class B properties for retrofit to increase the "cool" factor through design changes popular with tech sector firms.

Quoted lease rates for all building classes combined moved higher in Q2, rising $.30 to $22.46 per square-foot. Class A rose by $.30 for the period and $1.70 year-over-year, ending Q2 at $26.04. Tenants continue to pay a premium for Class A properties in Buckhead, Central Perimeter and Midtown submarkets, but it's getting tougher to find quality space even at the highest price points. The lack of developable land in prime submarkets, and the user resistance to record-high rents keep Class A construction activity from getting out in front of demand.

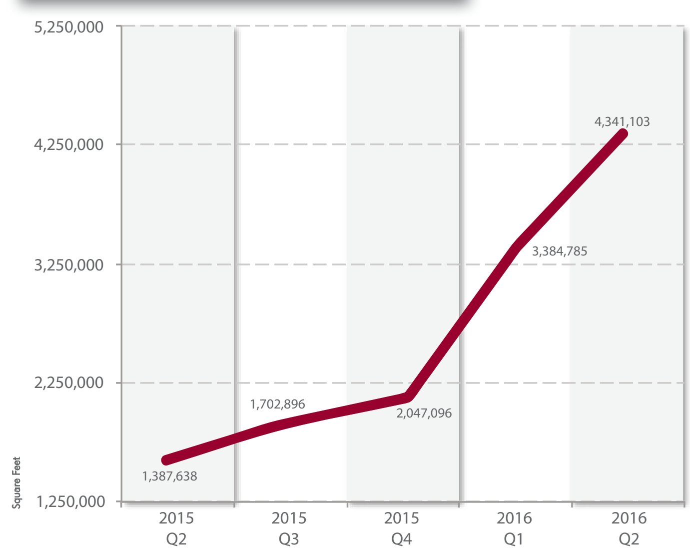
The Class B asking rental rate rose by $.80 year-over-year to $18.29, but many suburban Class B buildings are still suffering from lower occupancy. This trend may be reversing, though, as the spike in Class A rents has more tenants rethinking their priorities.

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. By the end of Q2, 4,341,103 square feet was still under construction, including Tishman Speyer's 506,647-square-foot Three Alliance Center and the 602,000-square-foot PerimeterCenter-StateFarm project. Infrastructure challenges and the high cost of the few remaining prime sites will keep new deliveries in check.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

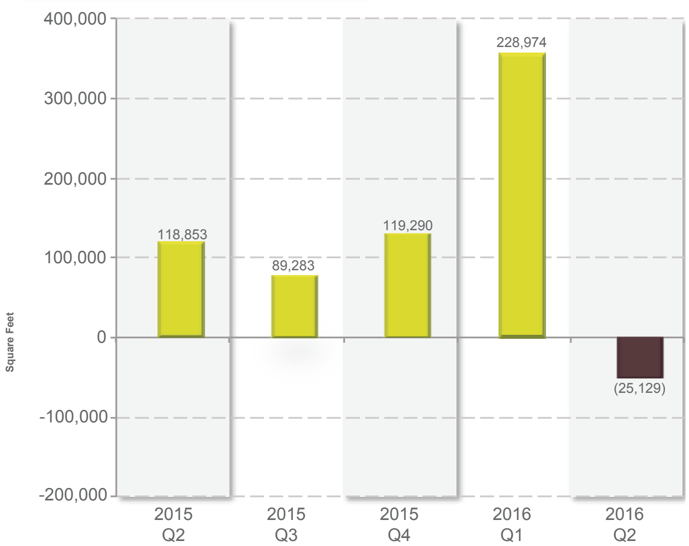


A LOOK AHEAD

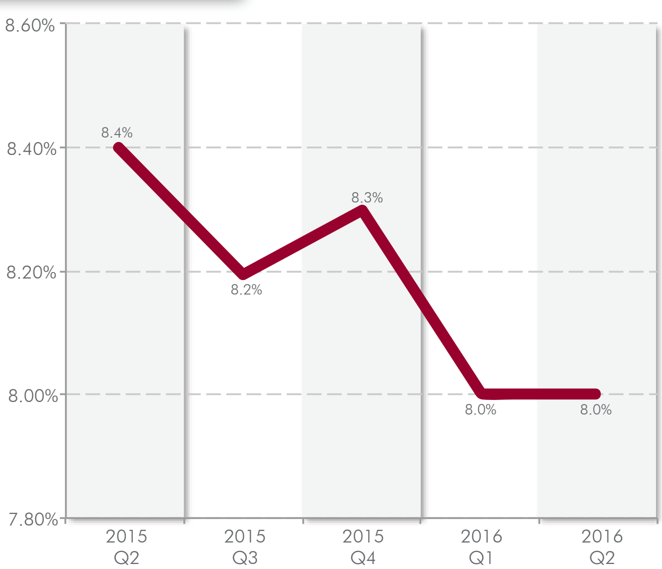
- Rents are likely to rise another 5% overall by the end of 2017
- Net absorption will remain positive overall, but could turn negative in areas such as Northlake
- Vacancy will continue its moderate rate of decline through the end of the year
- Sales prices will continue to rise, but activity will be severely limited by short supply
- Suburban office product will get more attention from tenants suffering from sticker shock in prime areas
- Speculative development will be limited, but a rise in the number of proposed projects indicates a rise in construction starts going forward

GREENVILLE/SPARTANBURG

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

After a very strong performance in 2015, the Greenville/Spartanburg office market continues to thrive. New investment from a variety of major companies choosing to call the region home, has injected billions of dollars into the local economy. The area's well-educated workforce and growing population provide the human resources for a wide variety of business sectors ranging from financial services to R&D. They like the close proximity to a convenient airport, multiple interstate highways and a renowned quality of life. The region boasts a mild climate, exceptional healthcare, award-winning schools, cultural attractions and diverse recreational opportunities. Due to lower operating costs compared to larger metro areas, businesses can realize substantial operational savings in the near term, and still plan for long term growth without leaving the region, while their employees can enjoy the benefits of a stable residential real estate market offering a wide variety of affordable housing options.

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. The CBD will soon be home to another major project on the former Greenville News site. The 4.3 acre parcel will be transformed into a mixed-use, office, hotel, luxury condominium and multi-family project with an on-site parking garage. This signature development is bound to give the CBD another huge boost.

While the office market continues on a growth trajectory, the second quarter was disappointing in terms of net absorption.

8.0%	$15.49	(25,129)	37,542,619	508,603
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

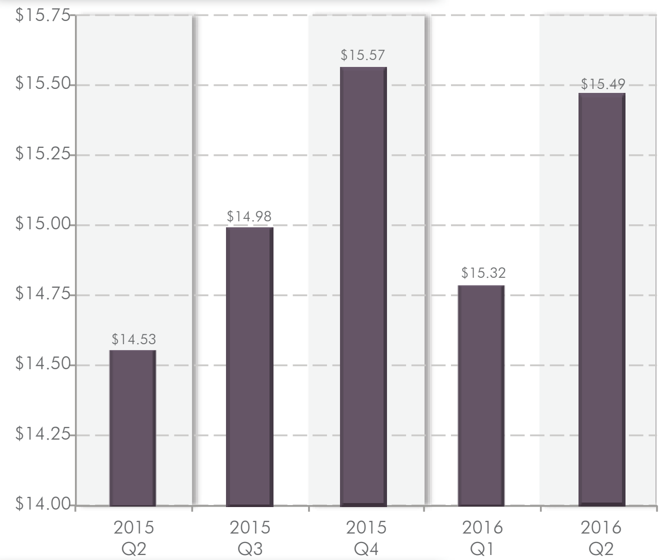
GREENVILLE/SPARTANBURG - TRENDING NOW (continued)

Overall net absorption came in at a negative 25,129 square feet, after a gain of over 379,000 square feet in the first quarter. But, uneven results quarter to quarter are expected given the moderate size of the office base and the periodic influx of larger users. Class A projects saw a net gain of almost 63,000 square feet, compared to a net loss of over 84,000 square feet in Class B product. CBD locations gained 57,000 square feet, but suburban submarkets posted a decline of 82,267 square feet. In all, mixed results that do not reflect any significant change in market direction.

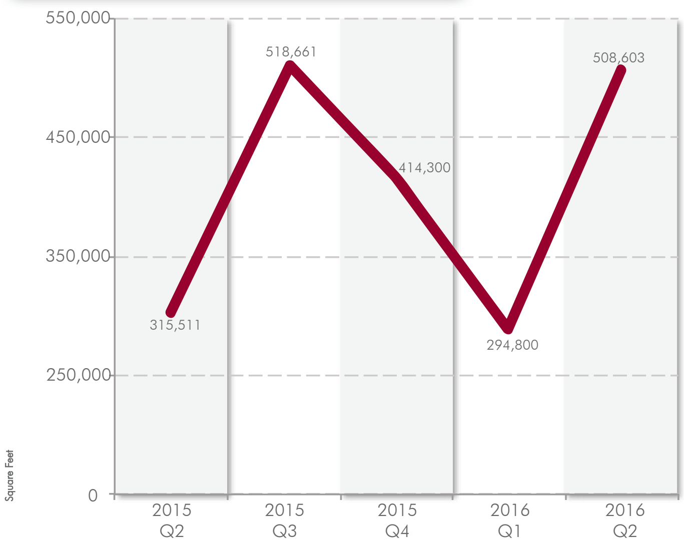
Overall market vacancy ended the quarter at 8%, up 20 basis points for the period, following a 50 basis point drop in Q1. Class A vacancy in Q2 fell another 90 basis points in Q2. That following a 150 basis point decline in Q1. In just a half year, vacancy in the Class A has decreased by over 30%. The average asking rental rate for Class A space during Q2 inched up $.06 to $22.17, while the Class B rate moved higher by $.17 to finish the period at $14.45.

Development activity has been increasing. Over 508,000 square feet of office space remained under construction in the Greenville area at the end of Q2, yet just 24,600 square feet of office space was completed during the quarter. That brings total deliveries for the year up to 226,000 square feet, which is slightly ahead of last year's 367,000-square-foot total. Current projects underway include the New Erwin Penland Building, a 125,000-square-foot project with onsite parking in Downtown Greenville. Preleasing activity stands at 47%. Another 125,000-square-foot building at 110 E Court Street, is now 91% pre-leased. When complete those projects will add to the region's 37.5-million-square foot office base.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

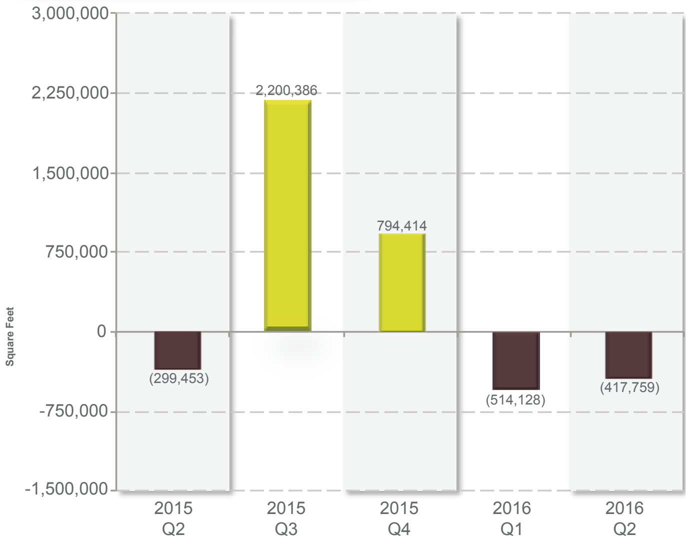


A LOOK AHEAD

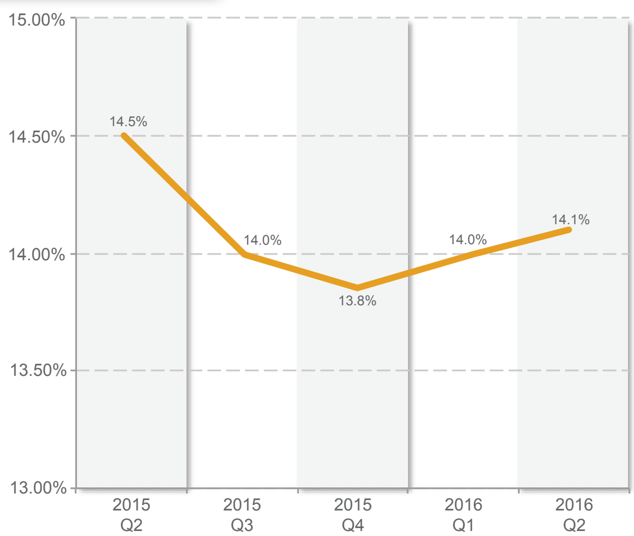
- Leasing activity will continue to move higher in the coming quarters
- Net absorption will remain positive overall, but expect significant quarterly swings
- Average asking rental rates will move higher, but on a flatter trajectory
- Steady demand for quality space will keep construction activity at least at current levels
- Look for more mixed-use projects, especially in Downtown Greenville
- Vacancy will make moderate but steady declines for the balance of the year

NORTHERN NEW JERSEY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Northern New Jersey's office market has experienced mixed results in recent years. While the area is home to many large corporations, the inventory of office properties is aging and construction activity has been limited. Job growth among office-using businesses has been the big problem. Median income growth for workers in office jobs has been weak, and the cost of living is one of the highest in the nation.

The region's 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. Even though the state of New Jersey has a competitive employer incentive program known as Grow New Jersey, more needs to be done to showcase the well-educated workforce, proximity to New York City and its location along the Boston to Washington DC corridor.

By the end of Q2, the overall average asking rental rate did manage to move up another $.10 to finish the period at $24.75. Class A rents increased by $.28 to $28.05, while the rate for Class B increased by $.10 to $22.14. Landlords of older, less functional product are getting more aggressive with offers of free rent to entice existing tenants to stay rather than by offering lower rental rates. In better quality projects, landlords are offering more in the way of amenities like gyms, in-building kitchen services and public area dining/lounging areas geared toward a workforce that is getting younger all the time. Tenants with stronger credit have been negotiating successfully for shorter lease terms to afford themselves greater flexibility in a local economy that is still in recovery. In general, Class B properties in CBD areas are getting the best results. Suburban Class A properties, farthest from urban cores are having a tougher time attracting tenants. Tenants are becoming less willing to pay higher rents without the benefit of the amenities offered in urban areas.

14.1%	$24.75	(417,759)	363,536,201	2,224,304
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

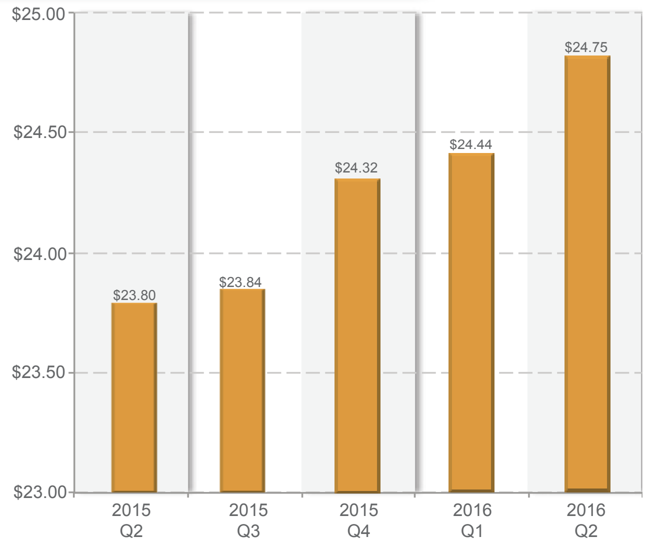
NORTHERN NEW JERSEY - TRENDING NOW (continued)

Net absorption was significantly negative in the past quarter and has run in the red in three of the last 6 reporting periods. In Q2, net absorption came in at a negative 417,759 square feet, after a negative 514,128-square-feet decline in occupied space in Q1. With so many tenants looking to reduce occupancy costs, renewals are on the rise, some of which are being completed at lower than existing rates. With such low levels of new construction, the stock of high quality inventory to choose from is declining. So, rather than suffer the disruption of a move, many tenants are staying put to reduce operating costs.

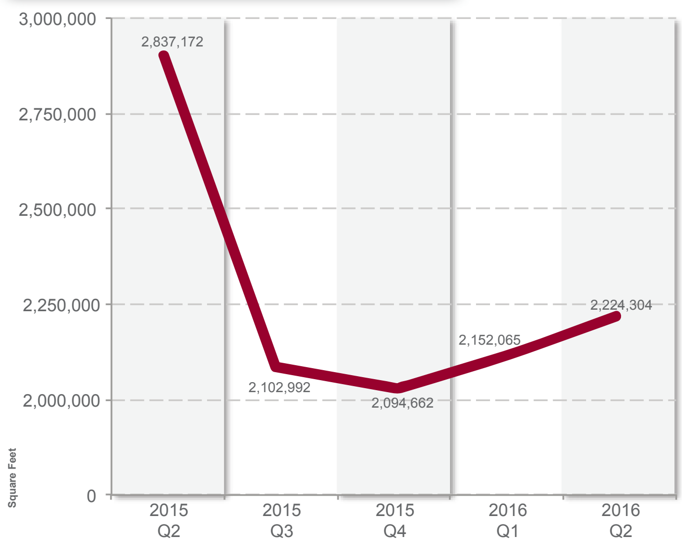
Just 2.2 million square feet of space was still under construction by the end of Q2, a relatively small number considering the region's base inventory of over 363 million square feet. Most of the new deliveries in recent years have built-to-suit projects. New speculative projects have tended to be smaller. In Q2, the 64,000-square-foot Paterson Medical Plaza was completed, without any preleasing activity.

Given current conditions, developers and lenders remain cautious in terms of building Class A or Class B spec space. High land and construction costs have set the barriers to entry too high at current rent levels. Through the first half of 2016, just 216,558 square feet of new product in 10 buildings, has been delivered. In all of 2015, only 1.2 million square feet of office space was delivered. The two largest properties currently under construction are both build-to-suit deals. The first is a new campus for Bristol-Meyers Squibb in Lawrenceville and the other is an expansion facility for Celgene on Morris Ave in the city of Summit. Each project is over 500,000

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

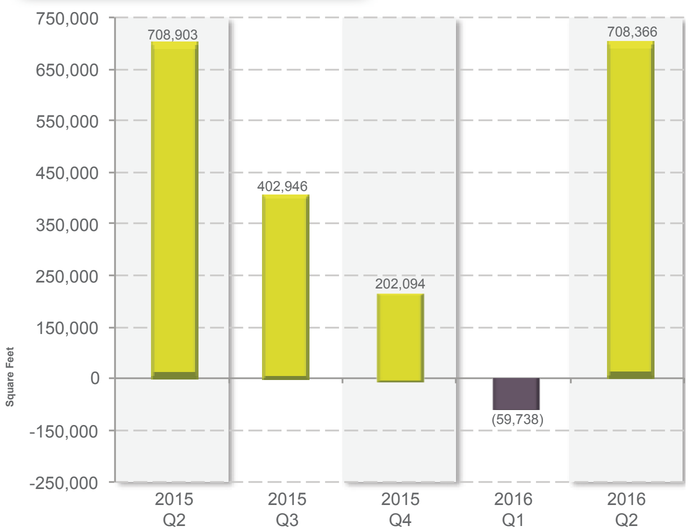


A LOOK AHEAD

- 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 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

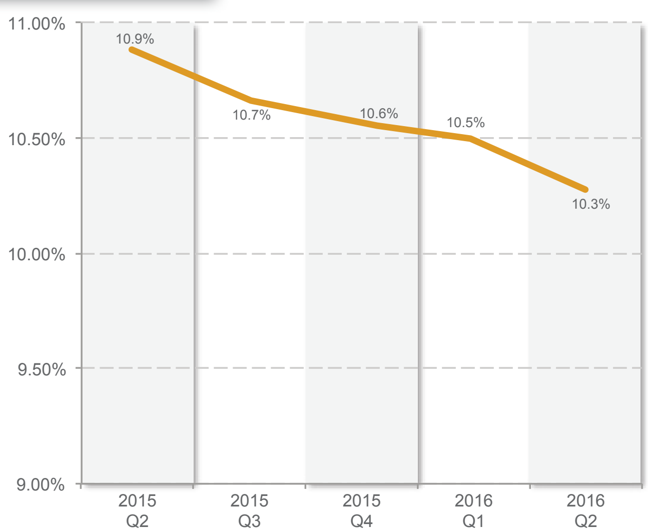
COLUMBIA, MARYLAND

NET SF ABSORPTION



*numbersreflectthegreaterBaltimoreregion

VACANCY RATE



*numbersreflectthegreaterBaltimoreregion

TRENDING NOW

The Columbia, Maryland office market highlighted in this report includes downtown Columbia through Maple Lawn. The region is strategically located between the cities of Baltimore and Washington DC, and is home to several government security agencies that provide opportunities for subcontractors to establish locations nearby. Favorable demographics in terms of population and a skilled workforce, along with a respected education system, attracts younger workers attracted to the live-work-play lifestyle that has been steadily gaining in popularity throughout the nation.

The Columbia Downtown is the primary CBD. It contains several existing Class A office properties and will soon be home to three new buildings being developed the Howard Hughes Corporation as part of its Merriweather District, and another built by Costello. Together those projects, which are all approximately 80% preleased, will add another 452,000 square feet to the current regional inventory of 1,200,000 square feet. Though it will take several years to complete both projects, they will have the effect of creating a truly modern central business district in the Columbia area.

Vacancy in the greater Baltimore region has moved down steadily, settling at 10.3% by the end of Q2. Year-over-year, the regional vacancy rate has declined by 60 basis points, with Downtown Columbia leading the way locally in terms of leasing activity. Columbia South finished the second quarter with just 6.6% of its 10 million square foot base standing vacant. The neighboring Columbia Town Center and Columbia North submarkets posted vacancy rates of 8.7% and 9.6%, respectively. That, compared to the Baltimore CBD vacancy rate of 13.8% reported in the same period.

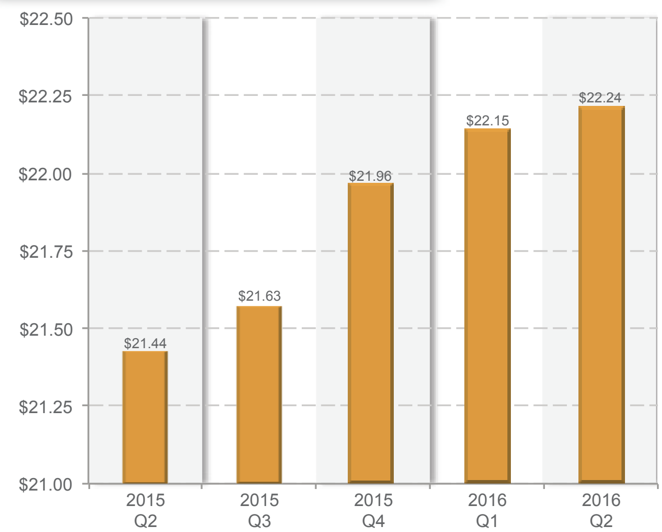
10.3%	$22.24	708,366	139,557,904	1,919,868
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INVENTORY (MSF)	SF UNDER CONSTRUCTION
▼	▲	▲	▲	▲

COLUMBIA, MARYLAND - TRENDING NOW (continued)

Average asking rental rates continue to move up, but at a tepid pace. Year-over-year, the region has seen a rental rate increase of 4% or $1.00 finishing Q2 at $22.24. Asking rates are highest in the Columbia Town Center, in part due to the fact that new deliveries and ongoing construction activity have been concentrated there. Almost 139,000 square feet has been delivered there in 2016 and another 104,412 square feet is currently under construction. However, there are significant differences by submarket. Class A space is getting most of the attention, while Class B activity in suburban areas, with the exception of Columbia Towne Center, remains sluggish.

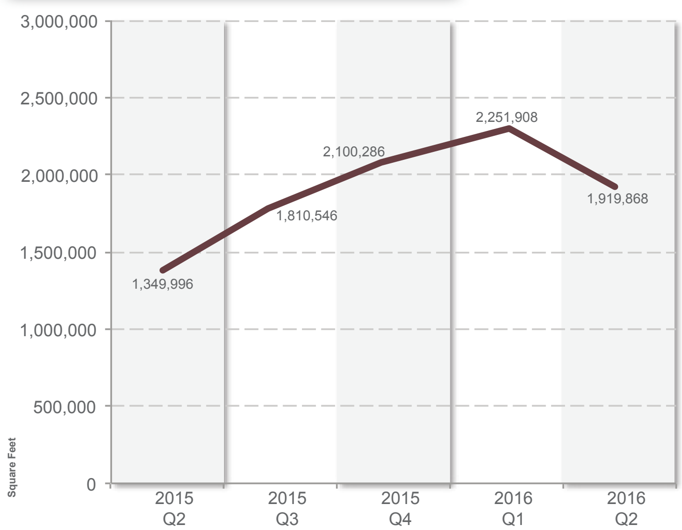
Columbia South also leads the way in net absorption, increasing occupancy by almost 179,000 square feet in the first half of 2016. That total is the highest of all submarkets in the greater Baltimore area this year. Net gains are still being influenced by the efforts of tenants to use less space by leveraging the latest trends in workplace technologies and mobile communications. Big contributors to this year's absorption totals include Nielson Automotive, 54,600 square feet, 7000 Gateway Drive, Ameritox Limited, 35,191 square feet, 7090 Samuel Morse Drive, Wood Consulting, 34,725 square feet, 8115 Maple Lawn Boulevard. Of note is the fact that net absorption for Class B in all three Columbia submarkets has run slightly negative through the first half of the year.

AVERAGE SF RENTAL RATES



*numbersreflectthegreaterBaltimoreregion

SF UNDER CONSTRUCTION



*numbersreflectthegreaterBaltimoreregion

A LOOK AHEAD

- Net absorption numbers will remain at current levels through the end of 2016
- Vacancy is expected to remain steady
- Asking sales prices for Class A assets are approaching $300 per square foot
- Asking rents for Class A space will be in the $27 range
- Environmental regulations due to proximity to the Chesapeake Bay will restrict new supply of office space
- Tenant preference for walkable, amenity-rich locations will increase as more workers demand workplace mobility

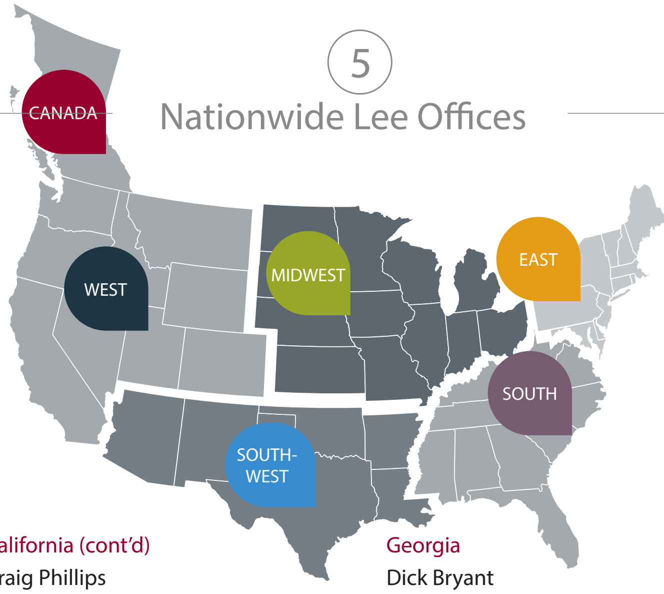
SELECT TOP OFFICE LEASES Q2 2016

BUILDING	MARKET	SF	TENANT NAME
Randolph West	Chicago	486,400	McDonalds Corporation
Nationwide Building A	Columbus	401,681	Cardinal Health
222 E. 41st St	New York City	376,765	NYU Langone Medical Center
CrossPoint 1	Boston	342,288	Kronos Incorporated
Zurich Towers I	Chicago	309,559	Paylocity Corporation
CityPlace 2	Houston	303,137	American Bureau of Shipping
211 Mount Airy Rd	Northern New Jersey	301,800	Daiichi Sankyo Pharma
90 Park Ave	New York City	241,196	PwC
Signet Jewelers	Dallas/Ft Worth	225,000	Signet Jewelers
215 Fremont St	San Francisco	208,994	Medallia, Inc.
7250 Havana St	Denver	211,579	Comcast
1755 Grant St	East Bay/Oakland	184,606	Wells Fargo

SELECT TOP OFFICE SALES Q2 2016

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
400 S Hope St	Los Angeles	701,535	$447.07	4.9%	GLL Real Estate Partners & PNC Financial Services	CBRE Global Investors, Ltd
The Sullivan Center	Chicago	942,330	$283.34	5.25%	Madison Capital	Elad Canada Operations, Inc.
Madison Lifestyle Office Portfolio	Madison	1,308,864	$142.11	7.75%	Artis R.E. Investment Tr	Vanta Comm'l Properties, LLC
180 Montgomery	San Francisco	304,162	$608.23	4.75%	Sidra Capital	CBRE Clobal Investors, Ltd

5 Nationwide Lee Offices



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The Lee Office Brief

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Third-party data sources: CoStar Group, Inc., The Economist, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Congressional Budget Office, European Central Bank, GlobeSt.com, CoStar Property and Lee Proprietary Data.

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