The Lee Office Brief

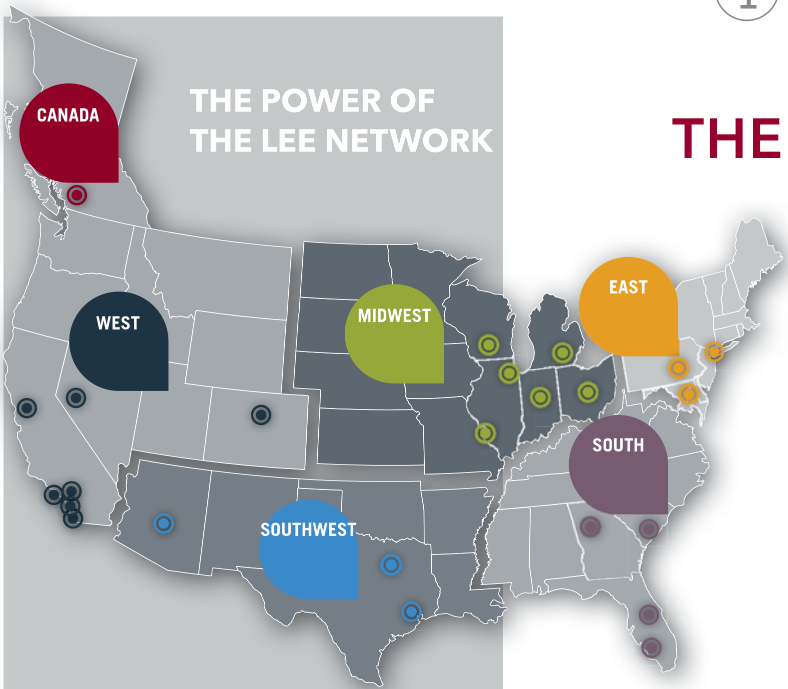
Q3

2017

LEE & ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES

THE POWER OF THE LEE NETWORK



THE LEE ADVANTAGE

LEE & ASSOCIATES IS THE LARGEST BROKER-OWNED COMMERCIAL REAL ESTATE FIRM IN NORTH AMERICA. Every Lee & Associates office delivers world class service to an array of regional, national and international clients--from small businesses and local investors to major corporate users and institutional investors. Our professionals combine the latest technology, resources and market intelligence with their experience, expertise and commitment to superior service to optimize your results.

SERVING OUR CLIENTS THROUGHOUT THE U.S. AND CANADA

ARIZONA
BRITISH COLUMBIA
CALIFORNIA
COLORADO
FLORIDA
GEORGIA
INDIANA
IDAHO
MARYLAND
NEVADA
NEW JERSEY
NEW YORK
OHIO
PENNSYLVANIA
SOUTH CAROLINA
TEXAS
WISCONSIN

GERALDEVE

AFFILIATE INTERNATIONAL RELATIONSHIP

- AUSTRIA
- BELGIUM
- FRANCE
- IRELAND
- LUXEMBOURG
- NETHERLANDS
- POLAND
- SLOVAKIA
- SPAIN
- TURKEY

INDUSTRY SPONSORSHIPS & ORGANIZATIONS

NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
SIOR
CORENET GLOBAL
CCIM
ICSC
NMHC

1 **MARKET LEADER**
SPECIALIZING IN MARKET INTELLIGENCE

2 **RELEVANT WORK**
SEASONED AGENTS WITH RELEVANT TRANSACTION EXPERIENCE

3 **WE SAVE YOU TIME**
CREATIVE PROBLEM SOLVING SKILL SETS

4 **ABILITY TO UNDERSTAND**
EFFECTIVE CLIENT COMMUNICATION

5 **INTEGRITY**
SHAPES OUR CULTURE & DEFINES THE CHARACTER

62%
increase
in transaction volume over 5 years

$11.6 billion
transaction volume
2016

900
agents
and growing nationwide

US OFFICE MARKET
Office Market Loses Momentum in Q3

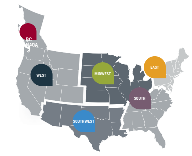
TRENDING IN Q3
- National vacancy unchanged since Q4 of 2016
- Net absorption drops sharply
- New deliveries outrun absorption year-to-date
- Tenants continue to look to new workspace designs to lower space needs
- Attracting and retaining younger workers remains a major focus for TAMI secto
- Projects rich in amenities near public transport keep the upper hand
- New York and Houston net absorption slide continues

ECONOMIC DRIVERS

A LOOK AHEAD

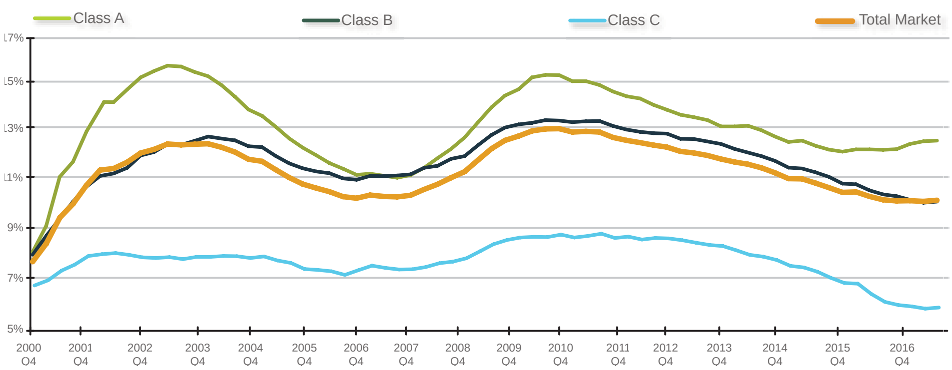
GDP GROWTH

EMPLOYMENT



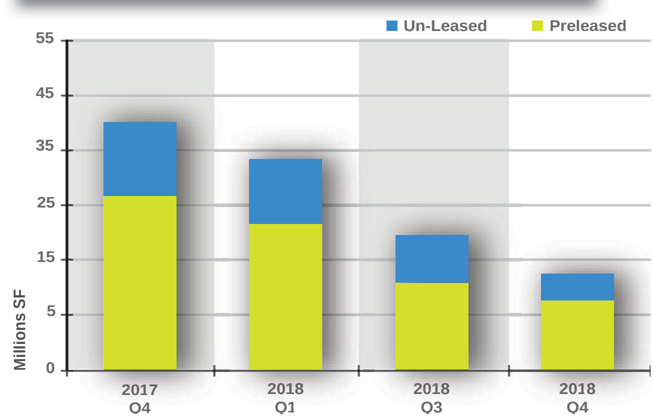
MONETARY POLICY

VACANCY RATES BY CLASS 2002-2016

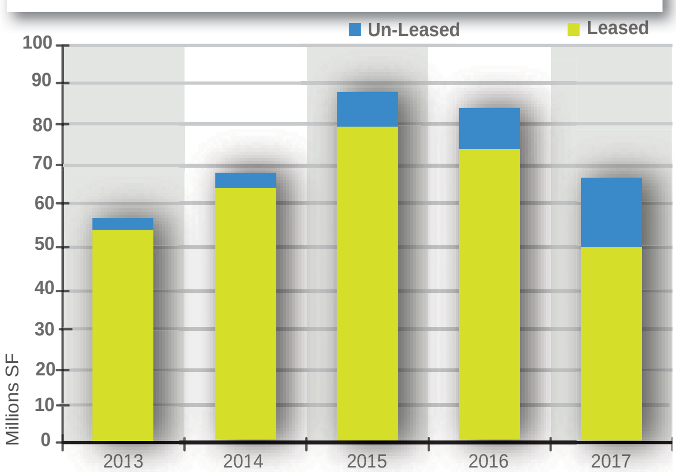


MARKET METRICS
For the past two quarters, we have been reporting that the US office market was showing signs of fatigue. Market performance for Q3 further confirms that observation. The vacancy rate, which had been coming down steadily over the past few years, was unchanged for the fourth consecutive quarter. Class A vacancy ticked up 10 basis points to 12.3%, where it was stuck for the previous two periods. Class B and C space each managed a 10 basis point decline to 9.4% and 5.6%, respectively. Partly to blame for the flattening of the vacancy trend is the fact that office tenants are now heavily focused on reducing their space footprints. Many of the major moves around the country involve downsizing, which is accomplished through new workspace designs that incorporate more open floor plans and leverage new communications technologies that allow more employees to work

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



RECENT DELIVERIES
LEASED & UN-LEASED DELIVERIES LAST 5 YEARS

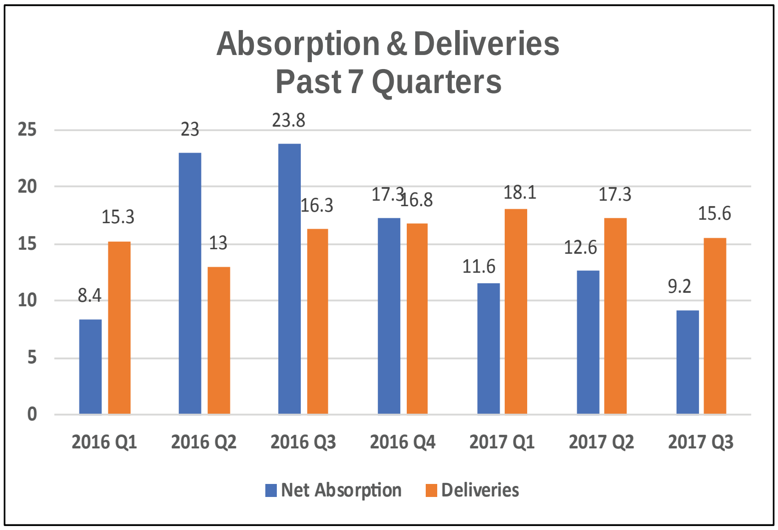


from remote locations. Tenants, large and small, are embracing this new way of doing business and its impact is probably just beginning to be seen.

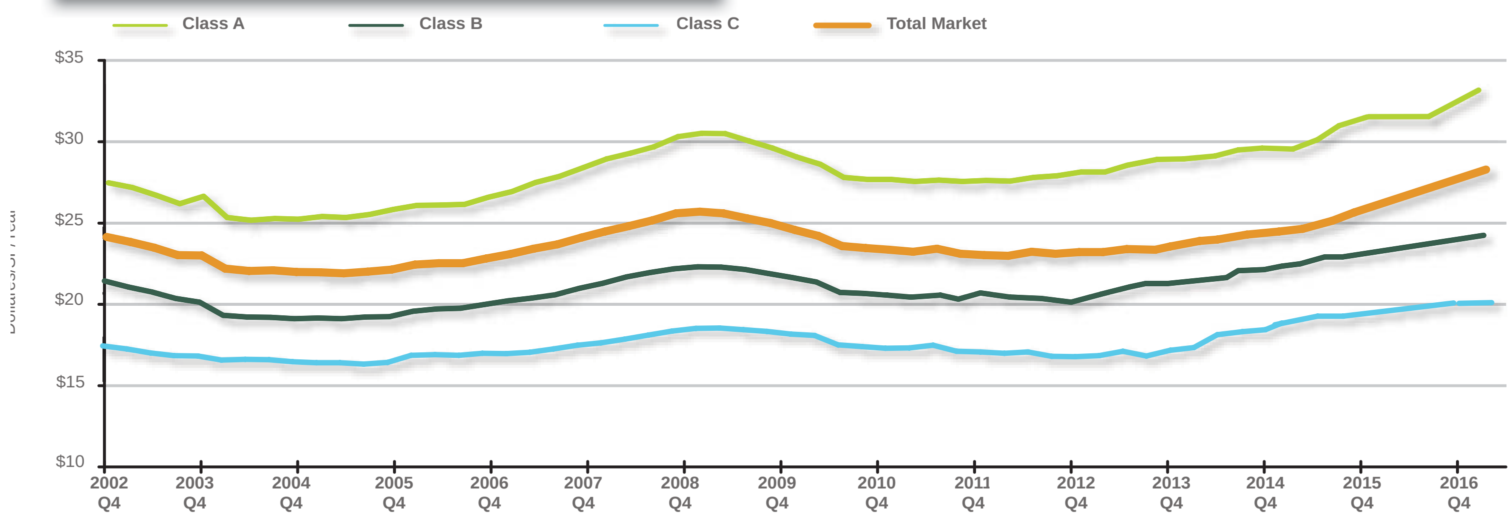
Given the fact that the workforce is getting younger each year with millions of baby boomers heading into retirement, owners of older, suburban office buildings are suffering. These buildings tend to be further from the walkable amenities and public transportation hubs preferred by younger workers. So, vacancy in those buildings tends to be higher than in buildings located in more urbanized areas. Thus, the vacancy picture is looking more and more like the haves and have nots. Well-capitalized owners are reinvesting in their properties to offer more in amenities, but it's an expensive and risky move given the recent slowdown in absorption.

We also reported last quarter that major markets including New York City, energy city Houston and tech-heavy San Francisco were negatively absorbing space. That trend is also continuing. New York City's net change in occupied space through the first three quarters of 2017 is negative 1.92 million square feet. Houston, still reeling from the effects of low oil and gas prices, has recorded over 2.7 million square feet of negative net absorption this year, while San Francisco, beneficiary of a boom in the tech sector, has cooled off, negatively absorbing over 236,000 square feet year-to-date, compared to a positive 1.7 million square feet by this time last year. Other cities posting significant levels of negative absorption this year include Minneapolis, Rochester, Westchester/So Connecticut and Oakland/East Bay. The Dallas/Fort Worth market is the national leader in positive net absorption this year at over 4.2 million square feet, followed closely by the South Bay/San Jose market at 4.1 million square feet. However, Apple's move into its new

ABSORPTION & DELIVERIES PAST 7 QUARTERS



HISTORICAL RENTAL RATES 2002 - 2016



2.8-million-square-foot headquarters accounts for a significant chunk of South Bay/San Jose's performance.

Net absorption nationally suffered a big decline in Q3, falling to just 9.7 million square feet during the period, well below the 22.65-million-square foot total for Q2. Year-to-date absorption stands at 49.9 million square feet, compared to 88.4 million square feet through the same period last year. Landlords are really feeling the pinch from changes in their tenants' workplace designs and strategies that are meant to reduce space needs and appeal to younger workers at the same time. At first, the trend was most prevalent with tech-based companies, but has since spread to a variety of office-using sectors, including commercial real estate services companies like Lee & Associates.

Despite lower net absorption, average asking lease rates have managed to keep moving up. In the last year, the average rate has moved up by 3.25% to end Q3 at $24.75. In Q3 alone, the average rate rose 1.4% from $24.40 per square foot in Q2. However, the disparity in rate levels and growth is driven by amenities and location in all product types. For those tenants looking to appeal to those younger workers, they are willing to pay more for the right amenity package, offsetting that cost by leasing less space. Markets with more active tech sectors like San Francisco and Seattle have experienced the steepest rent increases, but that may soon be changing as job growth in the tech sector has cooled off.

Many companies who have trouble predicting growth needs are looking to sign shorter leases or negotiate early terminations. Others are opting to locate in co-working environments like WeWork, especially smaller startup operations. If the trend toward shorter leases solidifies further, it will present a huge challenge to landlords who prefer stable cash flows that go along with long term leases.

The level of new deliveries remains stable. Year-to-date, 65.9 million square feet of office space has been delivered throughout the US, as compared to just over 60 million square feet through the first three quarters of 2016. In Q3 of 2017, 375 buildings, totaling 19.4 million square feet, were delivered in the US, after another 24 million square feet was delivered in Q2. Of note is the fact that the gap between net absorption and new deliveries has widened from 9 million square feet this time last year to 16 million square feet this year, which, in part, explains the flattening out of the vacancy rate. That also signals a higher risk of an overbuilt market, especially if that gap widens further.

The quarter ended with 154 million square feet of space under construction, down by almost 5 million square feet since the end of Q2. Almost 23 million square feet of that total is concentrated in just three tech-heavy markets, San Francisco, South Bay/San Jose and Seattle/Puget Sound. New York City, as might be expected, has the two largest projects under construction; the 3 World Trade Center building at 2.86 million square feet and the 30 Hudson Yards building at 2.6 million square feet. With a total of 15.5 million square feet in the construction queue, New York leads the nation, followed by the Washington metro area at 10.77 million square feet. Developers still favor amenity-rich areas that will encourage tenants to pay the premium necessary to cover substantial increases in land, construction and entitlement costs.

A LOOK AHEAD

Increasing softness in the office market has many experts calling a market peak. That may indeed be the case in some markets that have seen robust new deliveries and rapid rent growth over the last several years. Much higher rents for top grade Class A space will encourage more tenants to think about a change in building class along with a change in workspace design. Higher employee density is likely here to stay, especially for business sectors that can reduce the number of employees who work in the office full time. The so-called creative space phenomenon will continue, but it will take more than polished concrete floors, exposed ceilings and a ping pong table to get tenants to keep paying the premium for that type of space. Amenities, access to transportation and proximity to quality multi-family housing will be key drivers going forward.

US office market growth has had two major drivers; first ,was the energy boom precipitated by new drilling technologies. That job engine sputtered when oil and gas prices plummeted. Second, was the resurgence of the tech sector, which generated hundreds of thousands of high-paying full time jobs in tech hubs around the country. That sector has also cooled off and monthly job numbers have suffered as a result. For the moment, no other sector has picked up that slack and net absorption for office space will be further impacted, especially in light of higher employee densities that will allow many businesses to grow without taking on more space.

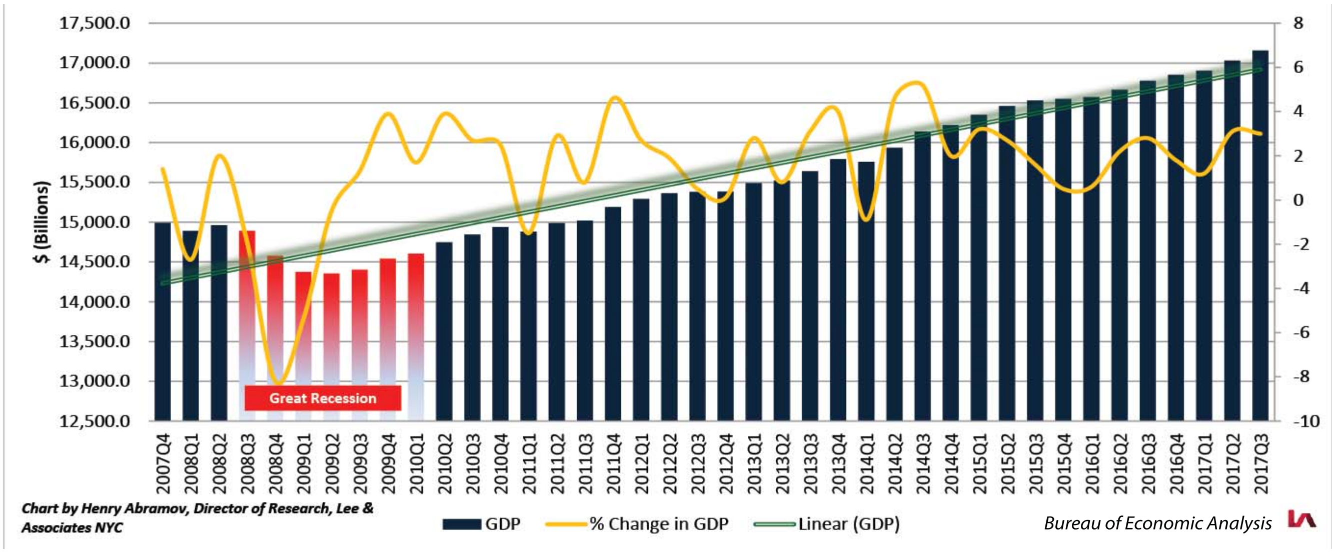
Construction levels should gradually decline to reflect lower levels of net absorption. Speculative developers will need to be more selective and cautious, as will their lenders. Currently, few markets are in danger of being considered overbuilt, which will limit the breadth and depth of a correction should one occur in the near term.

GDP GROWTH

TRENDING IN Q3

- Q3 GDP comes in above expectations at 3.1%
- Impact of multiple hurricanes less than forecast
- Consumer spending softens but stays in positive territory
- Businesses bulk on inventories
- Softer US Dollar boosts imports
- Inflation moves higher but stays well below Fed target

QUARTER-TO-QUARTER GROWTH IN REAL GDP



The first estimate of GDP growth for the third quarter came in above expectations at 3.0%. For the first time since 2014, the US economy posted back-to-back growth number of 3% or more. After disappointing performances in Q4 of 2016 and Q1 of 2017, the economy seems to have gained momentum, posting strong gains in consumer spending, business investment and exports, three of the four major components of the GDP formula. The fourth, government spending, fell by .1% in Q3, much to the delight of those looking to depend less on government as a key economic driver.

In Q3, consumer spending, which accounts for roughly 70% of GDP, grew at an annualized rate of 2.4%, despite a spending decline in hurricane-ravaged areas of Texas and Florida. Those decreases are likely to reverse in Q4, as those hit by the storms spend on recovery efforts and return to normal spending patterns.

Net investment by the nation's businesses was a major contributor to the strong economic performance in the third period. Nonresidential fixed investment grew at an annualized rate of 3.9%, which may be a precursor to an increase in productivity in the near term. That could bolster job growth and put upward pressure on tepid wage growth, a main concern of our central bankers.

National Economic Overview

GDP GROWTH

Inventories also rose sharply in Q3, but that may just be a response to the fact that inventories were allowed to deplete earlier in the year.

The softer US Dollar helped boost US exports by 2.3% in Q3, taking a chunk out of the trade deficit, a persistent drag on GDP. Credit is partly due to rising levels of oil and gas exports from Gulf Coast ports, which have risen sharply in recent quarters.

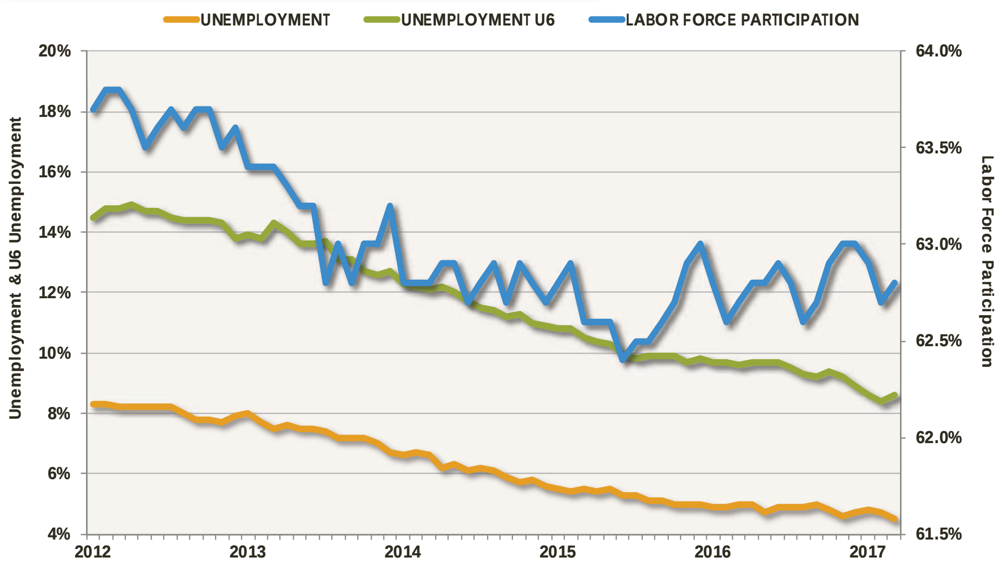
Inflation remains stubbornly below the Fed's target of 2%, but both measures of inflation moved higher in Q3. Core inflation, which strips out food and energy, picked up to a 1.3% annualized rate in Q3, while inflation in personal consumption expenditures, increased to 1.5% on an annualized basis, up sharply from the previous quarter.

EMPLOYMENT

TRENDING IN Q3

- Monthly job gains remain sporadic
- U3 Unemployment rate is down to 4.2%
- U6 Unemployment rate fell to 8.3% in September
- Job growth in manufacturing remains sluggish
- High percentage of new jobs are at the lower end of the wage scale
- Wage growth remains sluggish 9 years into economic recovery

NATIONAL UNEMPLOYMENT



Monthly job creation metrics remain sporadic, but over the past 12 months employers have added an average of 185,000 jobs each month, which many economists believe should be enough to tighten up the labor market and put upward pressure on wages. However, job growth, whether it's measured month by month or a rolling twelve month average, has definitely cooled off. In September, the U3 unemployment rate fell to a post-recession low. U3 measures employed workers and those who are unemployed but have sought employment in the most recent five weeks. So, job growth in a given month can be slow, but the unemployment rate will go down if more people stop looking for work. This happened in September when the U3 rate went down 20 basis points when there was a net loss of 33,000 jobs. Conversely, a big month for job growth is often accompanied by a rise in the U3 rate as those not actively looking for work start looking again and are added back into the calculation.

For this reason, more experts are looking to the U6 unemployment rate, which is a broader index that also includes part time workers, who prefer to work full time, as unemployed. That rate has been falling steadily, ending September at 8.3%.

Unfortunately, too many of the jobs created and counted each month are either part time or at the lower end of the wage scale. This explains the feeling of many workers who feel as though the recession never ended. In fact, of the top 30 fastest growing occupations as measured by the Bureau of Labor Statistics, 17 of them had a median annual wage of less than $35,000 and just eight of them had an average annual wage of more than $50,000.

EMPLOYMENT

Only one exceeded $100,000. Compounding this problem is the fact that many jobs that require specific skills and experience go unfilled due to a lack of qualified candidates, and these are often higher-paying, full time positions. Add the fact that high-skilled manufacturing jobs, positions that many are qualified for, have either been exported overseas or lost to advances in automation.

Job growth drives business growth and business growth drives net absorption of office, retail and industrial space. So, uneven job growth and weak wage growth may be at least partly to blame for across-the-board declines in Q3 net absorption.

MONETARY POLICY

TRENDING IN Q3

- Four vacancies on seven-member Board of Governors gives Trump a chance to shake things up
- Powell tapped to replace Janet Yellen as Fed Chairman
- FOMC passes on rate hike in September, but experts predict another bump in December
- The unwinding of the Fed's $4.5 trillion balance sheet begins in Q4
- Yellen hedges on prediction on further rate hikes based on weak inflation data

Concern over unprecedented vacancies on the Fed's Board of Governors is causing increasing investor uncertainty. Currently, four of the seven seats are empty. The latest resignation came from Stanley Fischer, who gave notice in September. Since all seven Governors also sit on the 12-member Federal Open Market Committee (FOMC), the group that weighs in on moving rates is making big decisions on monetary policy shorthanded. By law, the President nominates candidates for the Board, but thus far, none of President Trump's nominees has been confirmed by the Senate.

US TREASURY RATES

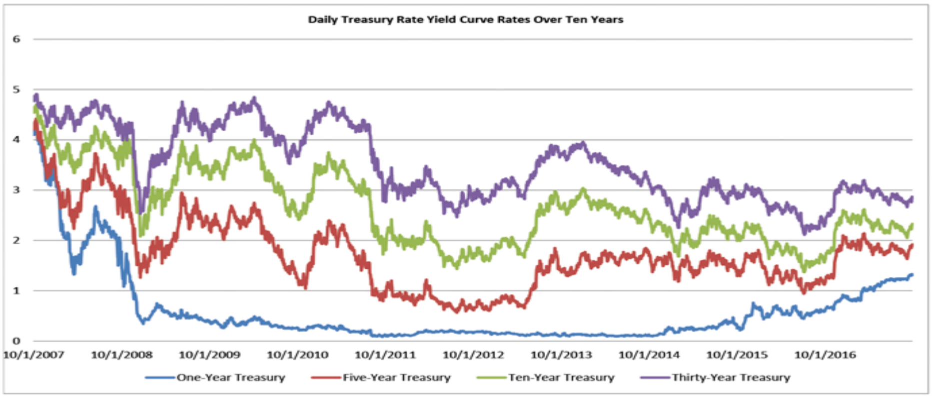
Interest Rates
Daily Treasury Yield Curve Rates

One-Year Treasury
- Rate on Sep. 29, 2017: 1.31%
- 10-Year Average: 0.59%

Five-Year Treasury
- Rate on Sep. 29, 2017: 1.92%
- 10-Year Average: 1.72%

Ten-Year Treasury
- Rate on Sep. 29, 2017: 2.33%
- 10-Year Average: 2.64%

Thirty-Year Treasury
- Rate on Sep. 29, 2017: 2.86%
- 10-Year Average: 3.50%



*Provided by Henry Abramov
Lee & Associates - NYC*

Department of the Treasury

The President has made his decision not to re-appoint Janet Yellen to a second term as Fed Chairman, instead nominating current Board member Jerome Powell for the position. Four others were in contention, including economist John Taylor, who would have been the only controversial pick, due to his belief that changes in the Fed Funds rate should be made by mathematical formula rather than by vote. In the end, Mr. Powell is a safer pick in terms of continuity in Fed policy, as he has a history of voting in lockstep with Ms. Yellen. Thus, the move for Mr. Powell for the chairmanship probably means it's more of the same in terms of monetary policy. However, his views on regulating banking activity as seen as more business friendly than those of Ms. Yellen. That bodes well for the big banks.

The current Fed Funds rate ranges from 1.00% to 1.25%, but most of the experts think another 25 basis point rise is likely after the FOMC meets in December. Since it is expected already, investors are likely to build it into decision making beforehand.

What is altogether unknown is the impact of a rate hike in conjunction with the unwinding the Fed's massive balance sheet that includes roughly $4.5 trillion in US Treasuries and Residential

MONETARY POLICY

Mortgage-Backed Securities (RMBS) it bought with electronically printed dollars, a process known as Quantitative Easing (QE). Recently, Ms. Yellen announced that beginning in October, $6 billion in Treasuries and $4 billion in RMBS would come off the balance sheet each month, with those amounts to grow substantially over time. Since it's never been done, no one knows what the outcome will be, but if QE actually helped drive down rates and stimulate the economy, it's hard to argue that reversing the process won't have the opposite effect.

On top of all that, inflation remains stubbornly under the Fed's 2% target and Ms. Yellen is already on record as saying that current monetary policy could reverse course if inflation stays too low. Fortunately, inflation picked up in Q3, which will help keep Fed policy on its current trajectory for the time being. Those of us in the real estate business have to keep a close eye on the yield of the 10 Year T-Bill, as that is the mostly widely used benchmark to determine commercial property mortgage rates. So far, that yield is holding in the 2.3% range, which means mortgage rates remain near historic lows for the moment. However, there is a correlation between the Fed Funds Rate and the yield on the 10 Year T-bill. So, if the Fed follows its present course over the next year, mortgage rates will move higher.

GLOBAL ECONOMY

After a pretty rough year in 2016, global economic activity has definitely picked up in 2017. The panic over the Brexit is over and fears of an economic whiplash have faded. The Bank of England, the UK's counterpart to our Fed, even raised interest rates for the first time in recent memory, indicating that central bank's belief in near-term economic growth. So far, it looks like London won't lose its status as a financial hub in that part of the world.

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

GDP growth around the world is improving with all continents around the globe reporting stronger growth this year. That's not to say that economic woes don't continue in many areas, but there is less bad economic news on the front pages of major newspapers these days, reducing concerns of another global economic setback anytime soon.

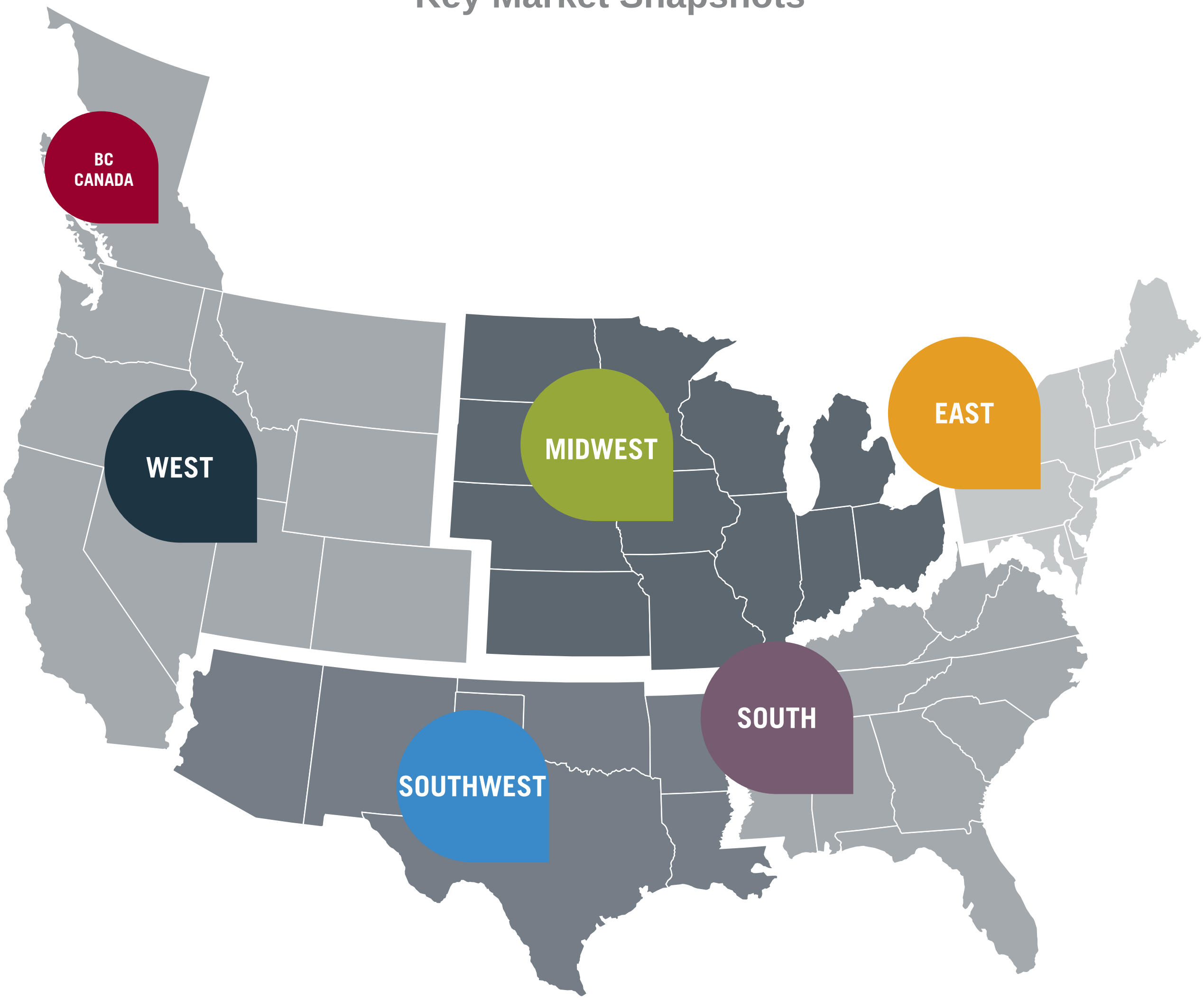
All eyes are on the European Union this year. After several pivotal elections that could have shifted power to more nationalistic parties, results were mixed, leaving things pretty much as status quo on the continent. Recently, the European Central Bank (ECB) announced its plans to scale back its Quantitative Easing (QE) policy by beginning to gradually reduce its bond buying from its current 65 Billion Euro per month level. No word from Chairman Draghi on raising benchmark interest rates, which remain in negative territory, a policy that still spooks economists worldwide. The ECB's monetary policy helped the EU beat the US in terms of GDP growth in 2016, but Mr. Draghi has watched US economic growth improve this year despite a higher Fed Funds rate and a suspension of QE. This could explain the recent hawkish rhetoric coming out of Europe these days.

China's economy and stock markets have also stabilized, which has relieved anxiety over a potential economic crisis in the world's second largest economy. China's leader Xi Jinping has taken a more active role in controlling economic events, consolidating his power in the process. New restrictions on capital flowing out of China have made it clear that he is willing to assert himself and the communist party as it relates to economic policy. China has also taking a more aggressive stance in terms of air pollution by actively promoting the country's active leadership in electric vehicle production.

As we reported last quarter, trade throughout Asia has improved in 2017 despite the fact that the US pulled out of the Trans Pacific Partnership trade agreement after Donald Trump took the reins as President. Tensions between the US and China over what constitutes fair trade between the world's two largest economic engines are heating up, but that hasn't stopped other East Asian nations from boosting trade this year. Port activity is up with most regions signaling robust growth moving forward.

GLOBAL ECONOMY

Tension in the Middle East, on the other hand, is on the rise, as long held differences between major oil powers have again been laid bare. Saudi Arabia blames Iran for troubles in Yemen and Qatar has been ostracized by several Middle Eastern countries for its alleged ties to terrorist activities. Problems persist in Syria and Kurds are still pushing for independence in Iraq. Through all that, the oil keeps flowing and OPEC countries have mainly complied with their recent agreement to curb oil production in an effort to bring supply and demand further into balance.



FEATURED MARKETS THIS QUARTER

WEST
Orange County

EAST
Manhattan

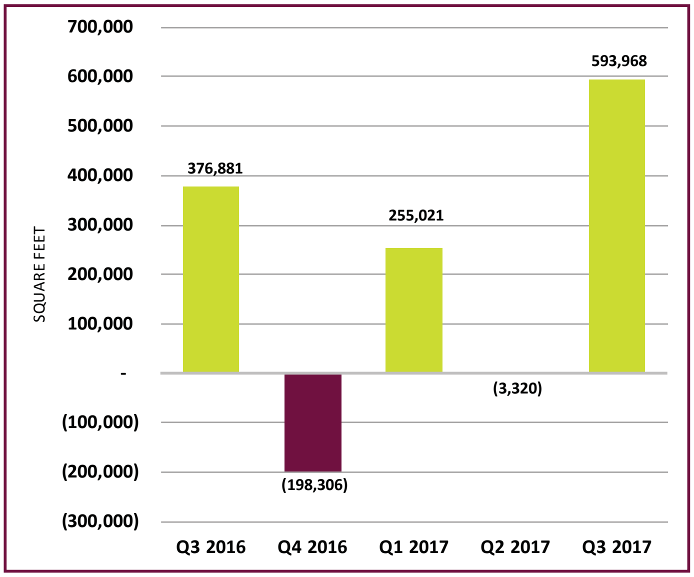
MIDWEST
Detroit

SOUTHWEST
Houston

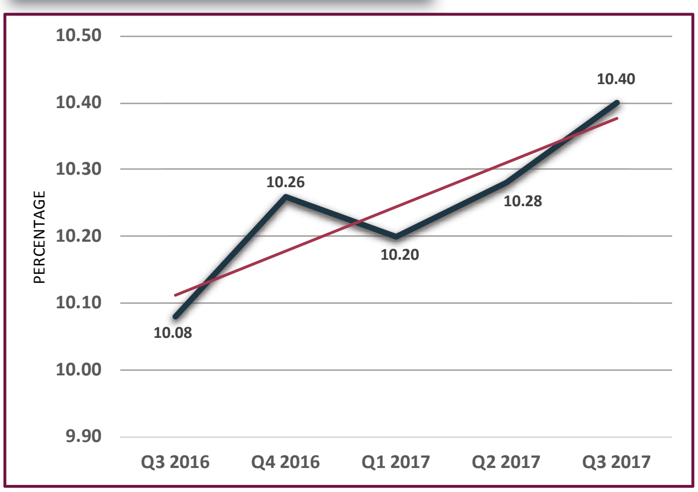
SOUTH
Greenville

WEST REGION - ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



TRENDING IN Q3

- Net absorption slows
- Vacancy rises for second consecutive quarter
- Average asking lease rate move slightly higher
- Irvine Company delivers new South County hi-rise
- Rent concessions back on the rise

Orange County's 112.4-milion-square foot* office market is finally showing signs of fatigue after several years of robust growth. Demand for Orange County office space in 2017 has fallen substantially compared to the past three years, and so has the rate of rent growth. Class A rent growth has been especially impacted. New data shows that Class A asking rents have increased just 3% this year compared to the 10.2% average increase for the same nine-month period in the last three years. To maintain that growth in coupon rates, more landlords are offering more in the way of tenant concessions like free rent and tenant improvement allowances, along with promotional incentives to the real estate industry.

Net absorption, the key indicator of market health, has slowed through the first three quarters. While still in positive territory, just 593,968 square feet of net occupancy gain has been realized, just over half the total for the same period last year and 49.8% less than the average through the first three quarters of each year since 2011. Class B has been hit especially hard this year, posting net absorption of less than 64,000 square feet, just 11% of last year's year-to-date total. Class A's net gain of nearly 472,000 square feet in 2017 is down by just 23,000 square feet. However, Class B buildings may fare better going forward as tenants with expiring longer term leases in Class A buildings suffer sticker shock and opt for a move to Class B to save on occupancy costs.

* buildings with a minimum of 10,000 square feet

10.4%	$31.32	593,968	17,791,403	2,397,703
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

WEST REGION - FEATURING ORANGE COUNTY (continued)

Orange County is not alone. Some economists look to the duration of the current economic upcycle to help explain the widely reported softening of office markets around the country this year. Whether that turns out to be true or not, it's clear that local office demand has lost some steam despite ongoing local recovery and improving US GDP growth, which has exceeded an annualized growth rate of 3% in the past two quarters.

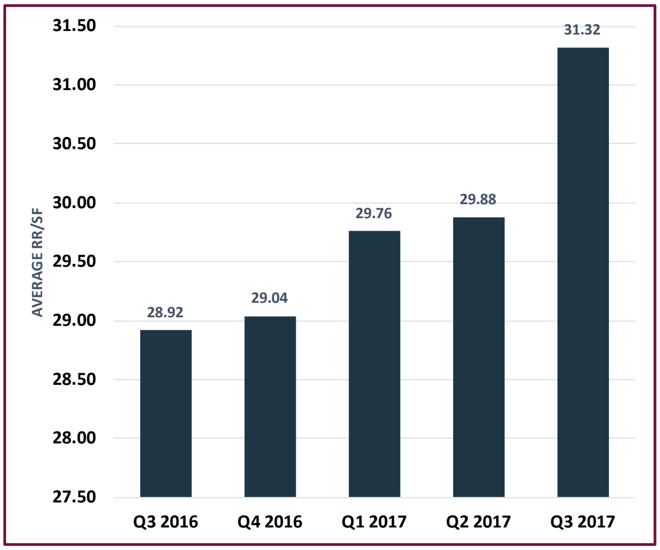
Locally, the sudden downshift in demand is altering expectations for landlords, particularly those in the Airport and South Orange County submarkets, where new premium buildings are hitting the market. Two buildings totaling 671,696 square feet were delivered in Q3, including 400 Spectrum Center, the Irvine Company's Class A high rise. Another eight buildings, totaling 1.4 million square feet, are underway in South County, most of which have no preleasing commitments.

Buildings in South County and around John Wayne Airport comprise nearly 60% of existing county office space as well as the county's newest Class A buildings. But the two submarkets have gone in different directions this year. South County has posted 385,265 square feet in positive absorption so far this year versus a net loss in occupied space of 328,959 square feet in the Airport area. The South County vacancy rate is 9.4% compared to 11.4% at the Airport, where another 537,000-square-foot building is slated for completion early next year with no major prelease commitments.

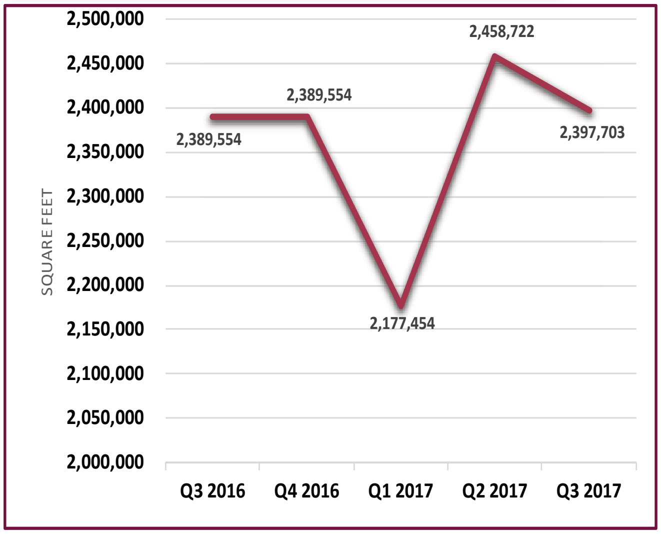
The vacancy rate in the smaller 8.9-million-square-foot West County submarket settled at 7.3% on 44,613 square feet of net absorption in Q3, while the Central County submarket, which includes Orange, Anaheim, Garden Grove, Santa Ana and Tustin, ended Q3 with a vacancy rate of 11.5% on a base of 22.3 million square feet. Net absorption in Central County slipped into negative territory by 74,198 square feet in Q3, but a net gain of 420,960 square feet has been recorded there for the year.

*** Buildings over 30,000 square feet**

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



WEST REGION - FEATURING ORANGE COUNTY (continued)

A LOOK AHEAD

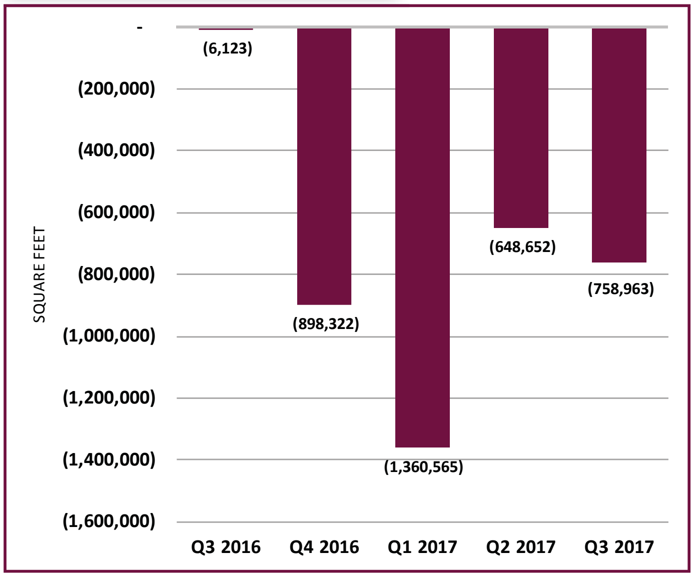
- Expect rent growth to flatten further, especially for Class A space
- Construction will slow going forward to allow time to absorb current speculative developments in progress
- Net absorption will remain near current levels
- Tenants will continue to push for smaller space footprints by leveraging technology
- Vacancy will resume its modest decline next year as new deliveries lease up
- Sales prices for owner/user buildings will keep going higher as long as the cost of capital remains near current levels

Regional Snapshots Around the West

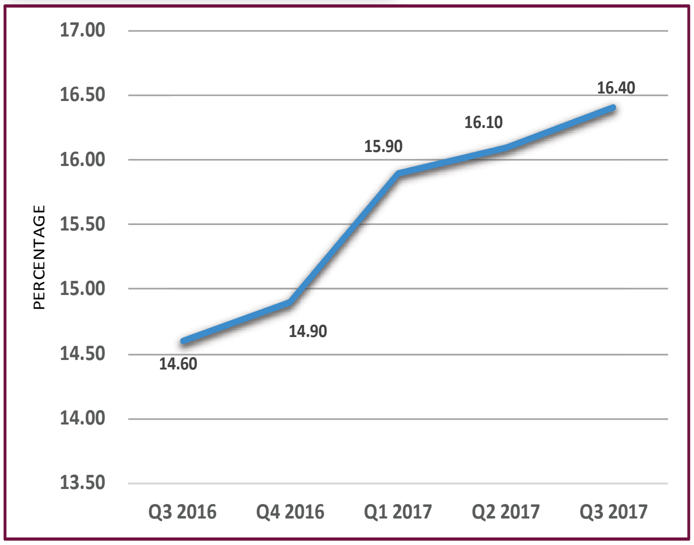
REGION	VACANCY %	AVG RR/SF	NET ABSORPTION	INVENTORY	UNDER CONSTRUCTION
Boise	6.5	17.07	181,967	29,818,579	168,540
Denver	10.4	25.9	1,220,735	200,308,643	5,612,334
East Bay/Oakland	8.5	33.7	(301,175)	110,462,578	1,771,918
Inland Empire	8.7	20.56	645,112	73,604,929	306,884
Los Angeles	10.7	34.61	995,970	437,082,224	5,290,860
San Diego	9.9	31.71	714,550	114,144,467	482,586
Seattle	7.3	31.31	2,046,986	197,848,023	5,576,012
Stockton	5.8	15.97	601,136	20,976,794	-

SOUTHWEST REGION - HOUSTON

NET SF ABSORPTION



VACANCY RATE



TRENDING IN Q3

- Just 0.8% of Houston's office inventory suffers hurricane damage
- Net absorption remains in negative territory
- Vacancy rise continues
- Investment sales market stays hot despite leasing woes

Harvey is a name that will not soon be forgotten around Houston and the overall economic impact of the massive hurricane is still an unknown. In terms of the office market, roughly 2.5 million square feet of office space, or 0.8% of Houston's inventory, suffered some degree of water damage. Thankfully, the damage was less than severe in most cases, as most businesses were back up and running again within a two-week period. In a handful of more dramatic cases, particularly in office properties close to Buffalo and Braes Bayou, companies shut down by the storm are still scrambling to find temporary space. Harvey poured almost 50 inches of water onto the Houston area and diluted attention to the current economic weather pattern.

In Q3, another 758,963 square feet of negative net absorption was recorded, marking the sixth consecutive quarter of negative net absorption in the region. That occupancy decline has landlords getting more aggressive as expiring sublease space converts to direct space. As a result, the asking rental rate for all building classes across the greater Houston area fell another $0.10 in Q3 to end the period at $27.60. The Class A asking rate fell $0.11 to $33.29, while Class B space managed a $0.03 increase to $21.56.

16.4%	$27.60	(758,963)	306,029,167	3,139,455
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

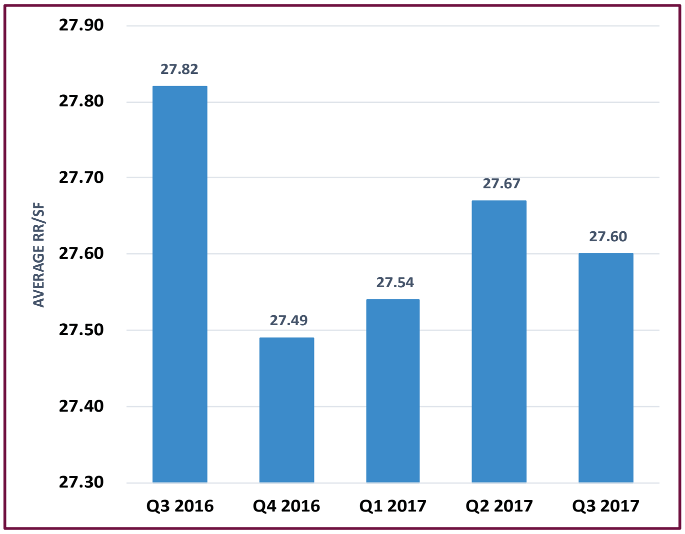
SOUTHWEST REGION - FEATURING HOUSTON (continued)

The overall vacancy rate has been on the rise since the end of 2014, soon after the sudden and sharp decline in oil prices jolted the regional economy. That trend continued in Q3 of 2017 with the overall vacancy rate moving up another 30 basis points to 16.4%. Class A vacancy now stands at 19.8%, while Class B vacancy, which has risen at a more moderate pace over the past two years, ended Q3 at 15.4%, up 40 basis points. Without a major disruption in the current business cycle, the office leasing forecast remains challenging for the foreseeable future.

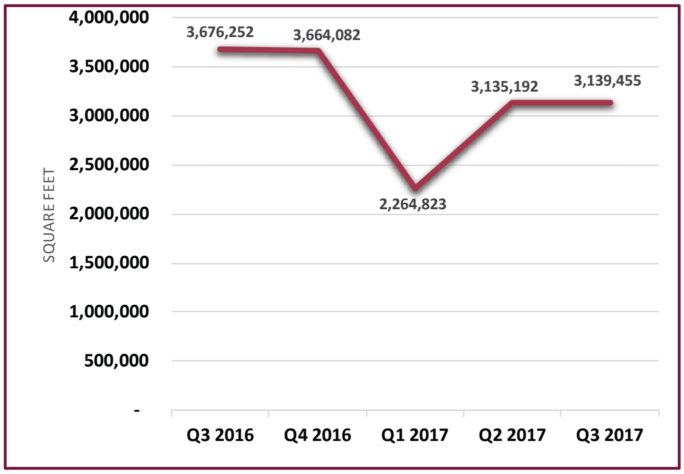
There is also some good news to report in terms of tenant activity. Motiva Enterprises LLC, a U.S. subsidiary of Saudi Aramco, expanded its lease to over 200,000 square feet to accommodate Saudi Aramco's operations after its local headquarters on the West Loop and Braeswood Boulevard was inundated by Harvey. This expansion earned Motiva naming rights to One Allen Center following a $48.5 million renovation to the long-established downtown development. NRG Energy signed the largest lease in Q3, subleasing 431,307 square feet at One Shell Plaza. This lease accounts for approximately 35% of the total square footage in the property.

In terms of the office investment market, there is even more cause for optimism. Despite challenging leasing market metrics, the investment market has been red hot of late. Q3 saw a handful of significant assets trading hands, including the 4.4-million-square-foot Greenway Plaza that sold to Canadian Pension Plan for $1.2 Billion, one of the largest transactions ever in Houston. Additionally, the downtown Houston Center Complex sold to Canadian based Brookfield Properties for $875 million. Institutional investors looking long term still believe in Houston's eventual recovery and potential for high office occupancy and strong rent growth.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



SOUTHWEST REGION - FEATURING HOUSTON (continued)

A LOOK AHEAD

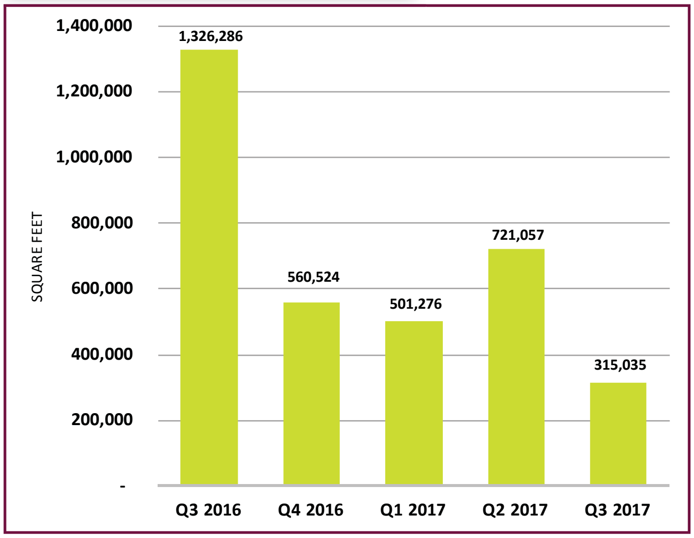
- Harvey's full effects will not be realized until Q1 or 2018. Despite severe residential damage, only 0.8% of the office market's net rentable space was impacted
- Concessions will remain elevated throughout the market in all classes, with generous concession packages, tenant improvement allowance, and abated parking
- Sparks in leasing activity suggests that tenants are becoming more confident with economic conditions and business drivers
- Direct vacant space will be on the rise as long-term subleases will convert to direct vacancy. Market-wide sublease listings dropped 560,000 square feet
- You will see tenant's flight to quality or newer Class A assets versus renovated, older Class A. Additionally, the Class B market will remain healthy

Regional Snapshots Around the Southwest

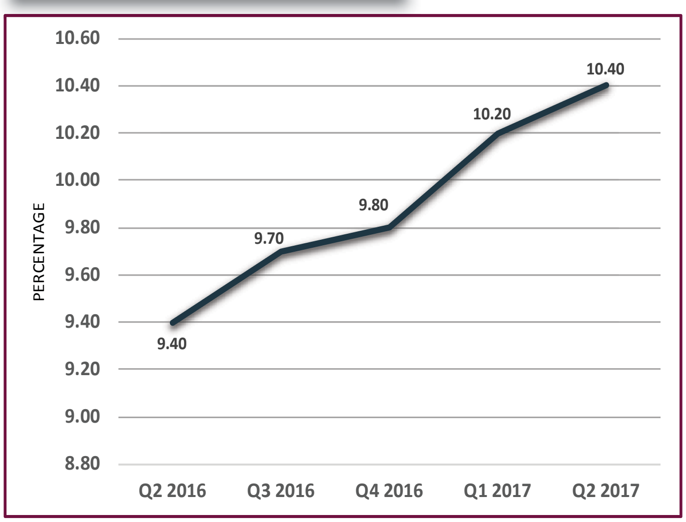
REGION	VACANCY %	AVG RR/SF	NET ABSORPTION	INVENTORY	UNDER CONSTRUCTION
Dallas/Fort Worth	14.50%	$25.04	4,212,363	367,383,731	9,768,203
Houston	16.40%	$27.60	(758,963)	306,029,167	3,139,455
Phoenix	15.00%	$24.09	1,559,076	172,964,725	1,504,676

MIDWEST REGION - DETROIT

NET SF ABSORPTION



VACANCY RATE



TRENDING IN Q3

- The Motor City office market continues to tighten
- Vacancy down 80 basis points year-over-year
- Absorption remains positive
- Several large lease signings soon to boost net absorption
- Average asking lease rates move up again
- A resurgent Downtown rebuilding for millennial population growth

The city of Detroit has put the nation's largest ever municipal bankruptcy proceeding firmly in the rear view mirror and the office market has been a primary beneficiary of a resurgent Motor City. Those in the millennial generation make up nearly a third of the Downtown population and that is leading to a high level of multifamily housing developments being built to support the live, work, play lifestyle that has become so popular around the nation. That is attracting major office-using businesses to the downtown area that are intent on recruiting and retaining young talent in support of their growth strategies. Little Ceaser's is poised to move into its new 234,000-square-foot downtown headquarters upon its completion in Q3 of next year, while Adient, a major automotive supplier is moving into 164,000 square feet on West Congress Street.

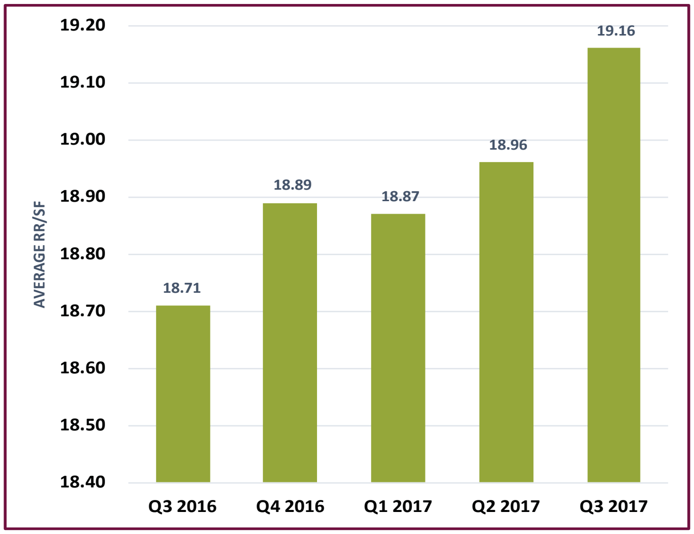
Downtown is not the only submarket getting into the act. Several other submarket that suffered very high vacancy due to the recession, are resurgent. Pontiac, which has been in the news often of late, will soon be the new home of United Shore through its recent acquisition of a 638,000-square-foot facility on 60 acres. The nation's largest wholesale

10.3%	$19.16	315,035	208,140,661	1,109,177
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

MIDWEST REGION - FEATURING DETROIT (continued)

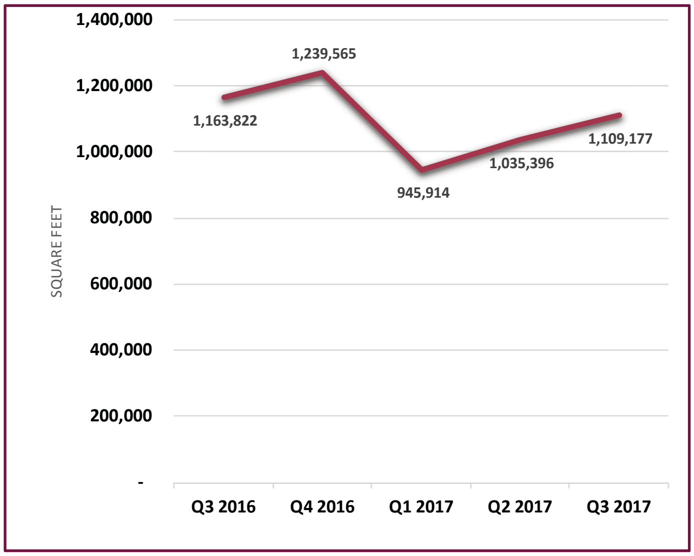
mortgage company plans to extensively renovate the existing facility before taking occupancy next year. Pontiac also boasts the largest lease signing of 2017, with its 385,000-square-foot deal inked by Williams International on Centerpointe Parkway East.

AVERAGE SF RENTAL RATES



Absorption was positive in both suburban and downtown areas for Q3, but all but 67,143 square feet of the 315,035 square feet of the gain was in suburban submarkets. Tenants boosting net absorption in Q3 included Magna International of America Seating with their occupancy of 180,000 square feet at 30020 Cabot Drive, and Yenfeng Automotive Interiors move into 93,588 square feet on West Twelve Mile Road. Through the first three periods of 2017, net absorption was roughly half of the total for the same period last year. Absorption should move back up again as some of the latest leasing activity converts to occupied space.

SF UNDER CONSTRUCTION



Not long ago, Detroit's municipal bankruptcy dominated the headlines, but now it is one of the nation's greatest turnaround success stories. Overall, the vacancy rate for the region has fallen from 16.8% at the end of 2010 to just 10.3% as Q3 of 2017 ended, making it one of the most dynamic growth markets in the country. Vacancy has been coming down consistently since 2010. CBD vacancy is running much lower, ending Q3 at just 7.9%, while suburban submarkets posted combined vacancy of 10.6%.

The good news is that both CBD and suburban submarkets keep moving in the right direction. That means rents are likely to keep moving up, giving renovations to attract new tenants. Lease rates have, indeed, been moving up. For the quarter, average asking rates for Class A space moved up $.22 to $21.83 and Class B rates increased by $.06 to $18.78. Suburban and Downtown properties have been similarly affected. However, rates vary widely between suburban submarkets, as some areas were hit much harder by the recession. To be sure, Detroit has further room for improvement, but the recent spate of large space commitments makes clear the potential of the region for ongoing improvement. Right now, just over 1.1 million square feet of office space is under construction and ten of the top fifteen projects in the construction queue are fully preleased. Moreover, eight of the eleven buildings completed so far this year were also preleased, indicating strong demand from major companies looking to invest in the Detroit area for the long term.

MIDWEST REGION - FEATURING DETROIT (continued)

A LOOK AHEAD

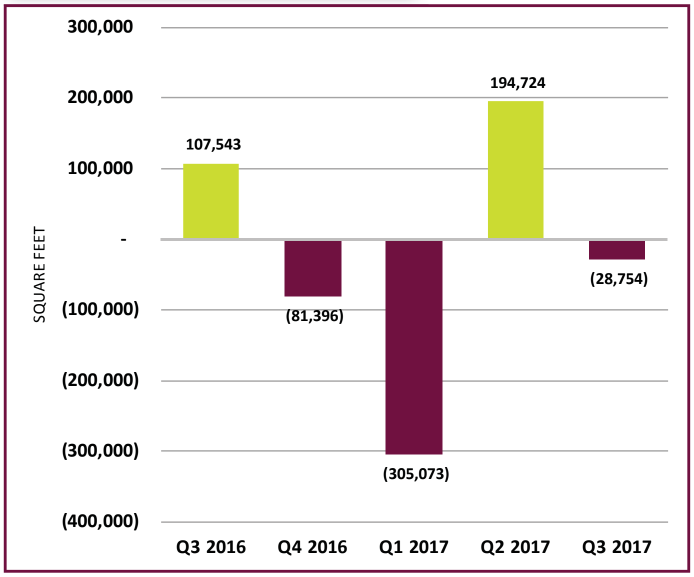
- Major new occupancies in high vacancy submarkets like Pontiac and Southfield will push vacancy lower in 2018
- Rents will keep moving modestly higher into next year
- Net absorption will remain moderate but positive
- Construction will remain mainly limited to build-to-suit or projects with substantial prelease commitments
- Downtown will see more major renovation projects as companies take more interest in locating

Regional Snapshots Around the Midest

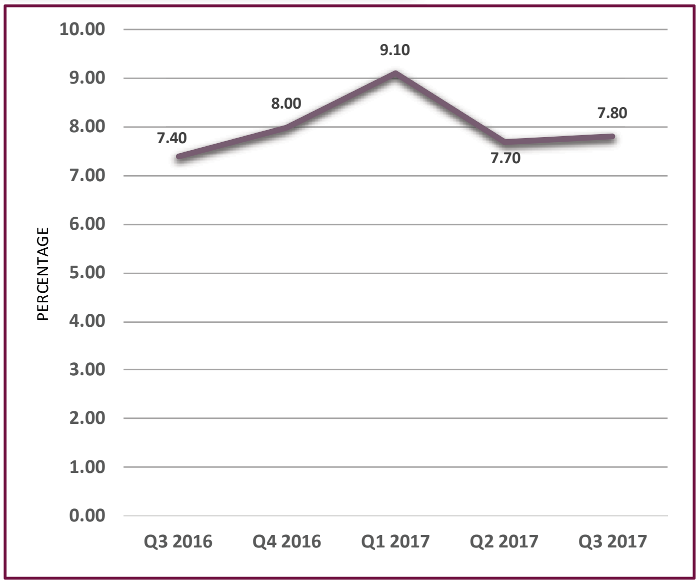
REGION	VACANCY %	AVG RR/SF	NET ABSORPTION	INVENTORY	UNDER CONSTRUCTION
Chicago	13.4	23.42	1,719,409	472,921,050	4,242,759
Cleveland	8.9	17.16	953,195	146,494,568	1,583,659
Columbus	6.7	17.98	478,692	99,045,028	1,103,627
Indianapolis	7.3	18.22	990,687	104,300,134	533,900
Madison	5.3	15.79	617,714	33,312,789	1,177,740
Minneapolis	7.5	19.37	(905,623)	193,508,053	1,268,428
St. Louis	7.6	18.59	712,883	131,960,395	1,262,324

SOUTH REGION - GREENVILLE

NET SF ABSORPTION



VACANCY RATE



TRENDING IN Q3

- Net absorption slips into negative territory
- Vacancy edges higher after falling sharply in Q2
- Average asking lease rates slip
- New deliveries light through the third period
- Bulk of space under construction is preleased

The City of Greenville, which is part of the Greenville/ Spartanburg metro region, was named the fourth fastest growing city in the nation in the last census. A wide variety of business sectors are attracted to the area due to its strong overall population growth, affordable housing stock, low cost of living and overall quality of life. The area also boasts a well-educated and trained workforce. The automotive industry, in particular, has had a major impact on the regional economy. Both BMW and Michelin have major facilities in the area and that has attracted numerous automotive suppliers and related service companies to the area. Greenville has a convenient airport, a thriving inland port to support the manufactured goods sector and immediate access to interstate transportation corridors.

Downtown Greenville's transformation continues. The thriving CBD is considered to be one of the true urban gems of the South. Development in the CBD comes mainly in the form of mixed-use projects that include a combination of retail, office and multifamily components. Regional office demand remains concentrated in Downtown Greenville, as many of the region's office tenants prefer new projects in

7.8%	$16.22	(28,754)	38,254,908	239,191
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

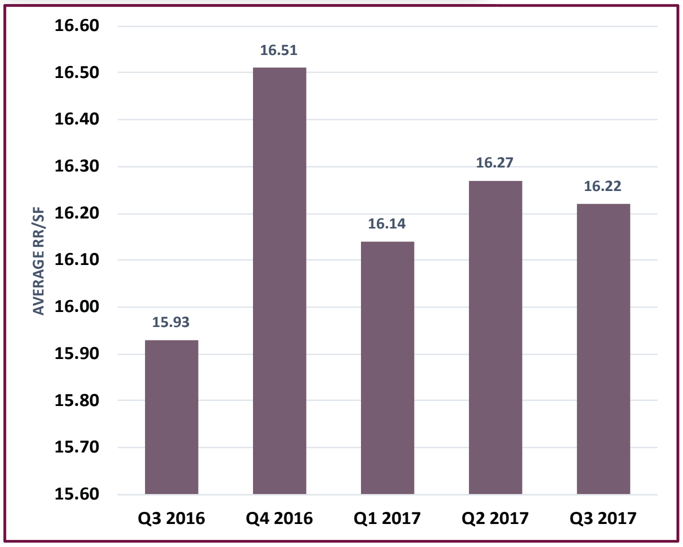
SOUTH REGION - FEATURING GREENVILLE (continued)

proximity to walkable amenities that help them recruit and retain younger workers that make up the bulk of the workforce. Downtown's hip urban environment with numerous eating, drinking and entertainment options, promotes the live-work-play lifestyle preferred by that generation.

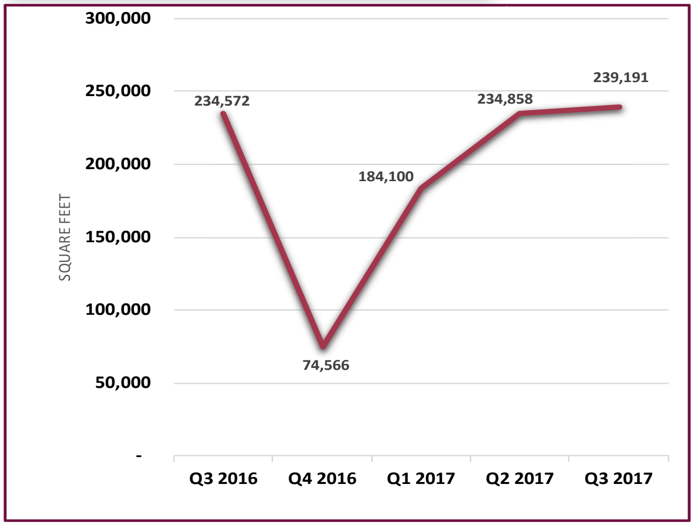
Net absorption slipped back into negative territory in Q3 after a strong gain in the second quarter. The region reported a decline in occupied space of 28,754 square feet all at the expense of Class B space which posted a loss of over 48,000 square feet. Class A buildings, on the other hand, added over 29,000 square feet to the total of occupied space. Year-to-date, net absorption stands at negative 139,103 square feet. Most of the loss has been reported in Class B downtown properties, while the biggest gains have been realized in Class A downtown properties, indicating a flight to quality, a trend that may continue as new projects are completed there. Net absorption should pick up in the final period as several new buildings will be delivered at 100% occupancy.

Vacancy has been the most volatile of Greenville's office market metrics. In Q3, the overall vacancy rate moved up by just 10 basis points to 7.8%, but it stood at 9.1% just two quarters earlier. The biggest impact came in Q1 when Class B negative net absorption exceeded 300,000 square feet. Looking at it on a year-over-year basis, vacancy has experienced a modest rise of 40 basis points. As we have reported many times in the past, uneven results in a small market as active as Greenville are not unusual and should probably be expected.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



Average asking rental rates have been moving higher for the past several years, but rent growth has leveled off in 2017. The last big jump was recorded back in the final quarter of 2016 when the overall rate hit $16.51. That same rate as Q3 ended was still $.29 under that mark after falling $.05 in the period. Class A rents, which now stand at $23.16, have slipped by $.04 in the last two periods after posting a $.93 gain in Q1. Class B rates in Q3 managed a modest gain of $.05 to end at $15.12.

New deliveries have been light through the first three periods of the year. Just three smaller buildings totaling 14,000 square feet were added to a base inventory which stands 38.25 million square feet. So far this year, 64,266 square feet of new space has been completed, but another 239,000 square feet remains in the construction queue. The largest of the projects underway, a 140,000-square-foot building on East Butler Road, is set deliver in Q4, and is 100% preleased.

SOUTH REGION - FEATURING GREENVILLE (continued)

A LOOK AHEAD

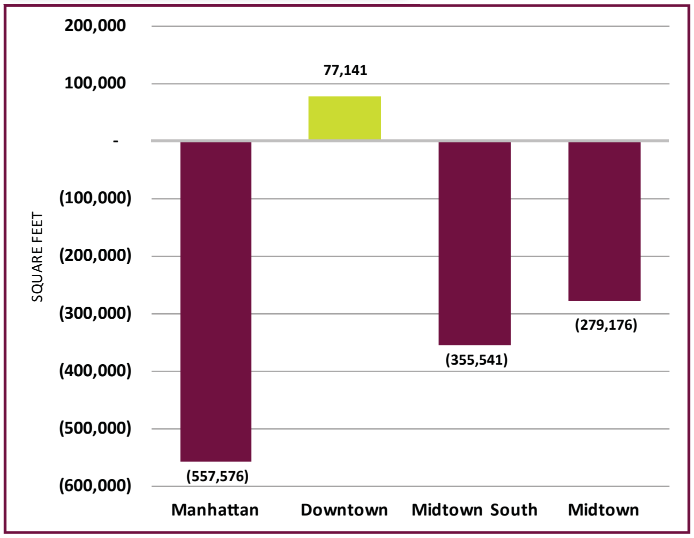
- Vacancy will decline overall, but remain volatile quarter-to-quarter due to new deliveries
- Net absorption should pick up in Q4, but expect continued volatility
- Sales prices for user product will keep moving up as long as mortgage rates remain stable
- Average asking rental rates will move up at modest pace in 2018
- Construction activity will experience a decline heading into next year
- Leasing activity should remain near current levels

Regional Snapshots Around the South

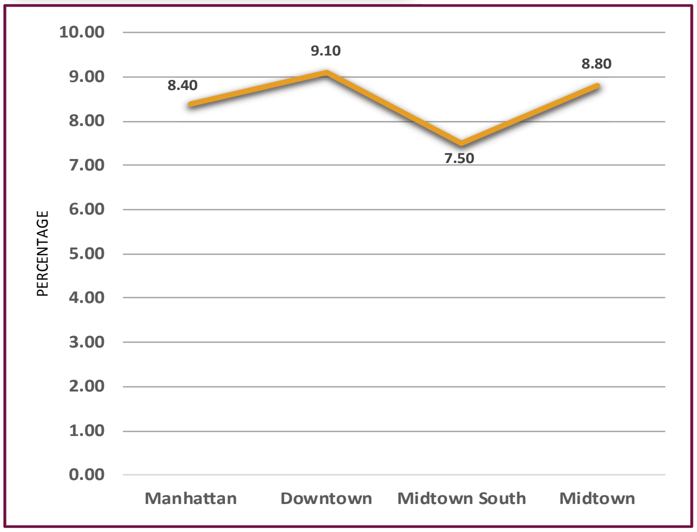
REGION	VACANCY %	AVG RR/SF	NET ABSORPTION	INVENTORY	UNDER CONSTRUCTION
Atlanta	11.9	22.97	988,347	309,017,455	5,125,366
Charleston	6.6	23.60	155,006	26,753,238	445,433
Orlando	7.0	19.77	1,173,209	105,001,944	1,202,157

EAST REGION - MANHATTAN

NET SF ABSORPTION



VACANCY RATE



TRENDING IN Q3

- Negative net absorption persists
- Vacancy moves up again
- Average asking rents continue to climb
- Construction levels remain steady
- Time on market for available space is up

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.

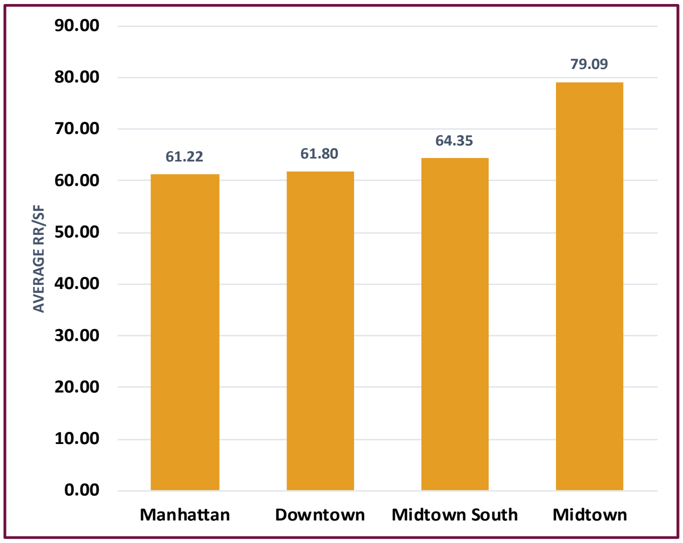
Midtown, which is still home to many of the country's largest companies, suffered its fifth straight decline in leasing activity in Q3. Activity fell by 27.2% quarter-to-quarter to just 2,492,428 square feet. Time on market for available space continued to move up in Q3, as well, increasing by a month to 13 months. Net absorption was also disappointing in the third quarter, as Midtown posted a decline in occupied space totaling 279,176 square feet, bringing total negative net absorption for the year to 775,803 square feet. Overall asking rents in Midtown, while down by almost 6% year-over-year, managed to move $1.41 higher during the third quarter to finish at $79.09, but concessional discounts are up by nearly 6% year-over-year, which is indicative of softening market conditions. Vacancy in Midtown

8.4%	$61.22	(557,576)	482,000,000	15,291,054
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

EAST REGION - FEATURING MANHATTAN (continued)

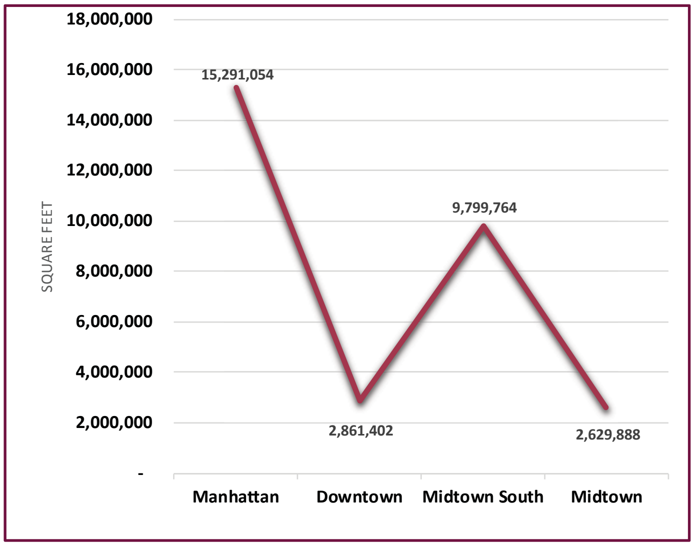
was unchanged in the quarter at 8.8%, but that is 20 basis points above the five year average. Just two of Midtown's six major submarkets, Rockefeller Plaza and Times Square, have recorded positive net absorption this year, at 670,087 square feet and 169,451 square feet, respectively. The Grand Central submarket has suffered the biggest absorption decline in 2017 at negative 764,737 square feet, followed by the Plaza District submarket at negative 494,811 square feet. The highest asking rents in Midtown are in Midtown West at $83.08, up by .6% in Q3, but 7.9% higher than a year ago. By contrast, Rockefeller Center asking rents have declined by 10.9% in the last year, but did move slightly higher in the third period.

AVERAGE SF RENTAL RATES



Midtown South, known as "TAMItown" because of its popularity with technology, advertising, media and information companies, has also experienced mixed results this year. Five of the six submarkets that make up Manhattan South recorded gains in asking rents during the third quarter, but on a year-over-year basis, asking rates are down by 4.1%. Concessional discounts are slimmer than neighboring Midtown. In Q3, discounts decreased to 2.9%, down from 4.8% in Q2. Still, leasing activity was down in Q3, falling 27.3% in the period to 2,696,147 square feet. Year-to-date, 8,592,705 square feet of leasing activity has been recorded. Net absorption has been disappointing in 2017, as Midtown South has posted a net loss in occupied space of 858,860 square feet, with 355,541 square feet of that total coming in the third period. The average time on market for occupied space, seven months, is the same as it was this time last year.

SF UNDER CONSTRUCTION



Despite disappointing absorption numbers, five of the six submarkets that make up Midtown South saw increases in average asking rates in the third quarter, and the six posted only a nominal decline. Hudson Square/Tribeca led the way with an increase of 7.2% in the period, bringing year-to-date rent growth up to 10.1%. SoHo/NoHo, posted a decline of just .4% in the period, but has seen year-over-year rent growth of 10.7%. The Penn Station/Garment submarket has seen the biggest decline in rents year-over-year at 13.7%, further evidence of mixed market conditions.

EAST REGION - FEATURING MANHATTAN (continued)

Downtown, which includes the World Trade Center, offers a variety of product types that attract users from both Midtown and Midtown South. Leasing activity for Q3 was up by 70% quarter-to-quarter, with a total of 884,590 square feet leased. That strong performance brought leasing activity up to 4,690,159 square so far this year. In Q3, the overall asking rate rose by 1.5% to end the period at $61.80. Downtown, unlike its two regional counterparts to the north, has posted positive net absorption, (just 47,805 square feet) in 2017. That has led to a modest 20 basis point drop in vacancy in the past year.

Average asking rents are lowest in the City Hall/Insurance submarket at $53.04, up 3.2% in the period, but are highest in the World Trade Center submarket at $64.97, up 2.13% in Q3. Time on market is highest in the World Trade Center area at 15 months, followed closely by the Financial District at 14 months.

A LOOK AHEAD

- Leasing Activity will decrease
- Net Absorption will remain negative for the year-end total, but may break positive for Q4
- Vacancy will increase
- Overall asking rents will slightly increase
- Construction is leading the top lease signings of the year and is expected to move forward into the next quarter

Regional Snapshots Around the East

REGION	VACANCY %	AVG RR/SF	NET ABSORPTION	INVENTORY	UNDER CONSTRUCTION
Baltimore	9.9	22.58	1,227,635	140,188,742	1,303,692
Long Island/Queens	7	28.3	469,929	187,448,777	5,066,819
New Jersey	12.6	25.5	1,006,505	364,583,007	2,661,707
New York City	8.2	65.7	(1,923,988)	560,975,320	15,500,149

SELECT TOP OFFICE LEASES Q3 2017

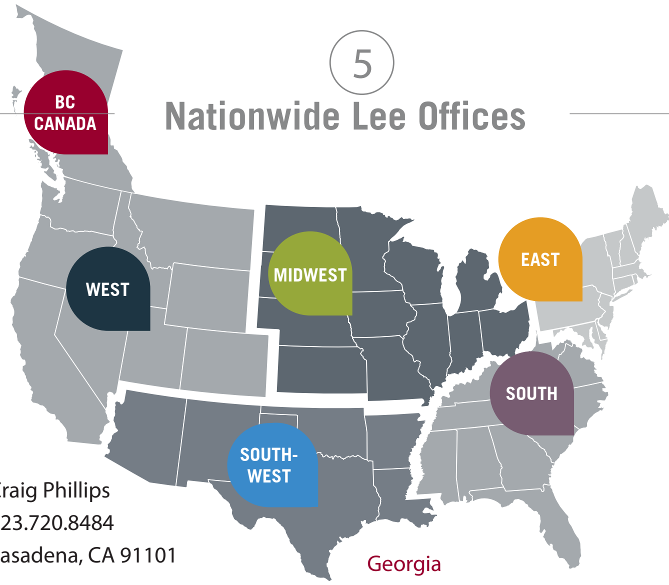
BUILDING	MARKET	SF	TENANT NAME
15101, 15191 Alton Pkwy	Orange County	660,893	Broadcom Ltd
181 Fremont	San Francisco	432,000	Facebook
One Shell Plaza	Houston	431,307	NRG Energy
333 S. Wabash Ave	Chicago	404,719	Northern Trust
Tryon Place	Charlotte	400,000	Ally Financial, Inc.
1999 Centerpoint Pkwy E	Detroit	385,213	Williams International Co., LLC
5 Manhattan West	New York City	365,375	Amazon.com, Inc.
180 Maiden Lane	New York City	276,221	NYC Department of Investigation
7001 E. Belleview Ave	Denver	266,776	Western Union

SELECT TOP OFFICE SALES Q3 2017

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
Oakland City Center	East Bay/Oakland	357,357	$421.93	4.7%	KBS Strategic Opp REIT II	Rubicon Point Partners
Piedmont Center	Atlanta	849,000	$169.61	6.0%	The Ardent Companies	Northwestern Mutual Life Ins
5th & Colorado	Austin	179,351	$663.50	5.86%	Intercontinental RE Corp	Lincoln Property Company
600 B St	San Diego	359,278	$304.78	5.6%	Rockwood Capital, LLC	Lincoln Property Company
4100 Newport Pl	Orange County	190,405	$397.05	4.2%	Olen Commercial Realty	American Realty Advisors
Bank of America Bldg	Detroit	422,155	$175.29	9.0%	Sol Kahn	Sovereign Partners

5

Nationwide Lee Offices



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(Central Coast)

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

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