The Lee Office Brief

Q4 2015

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$10 billion transaction volume 2014

800 agents and growing

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OFFICE
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INVESTMENT
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LAND
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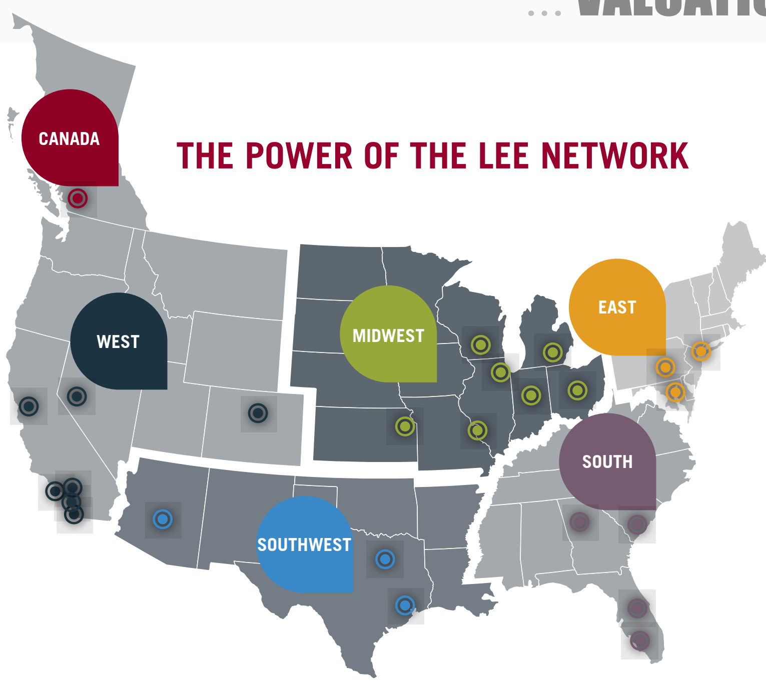
THE POWER OF THE LEE NETWORK

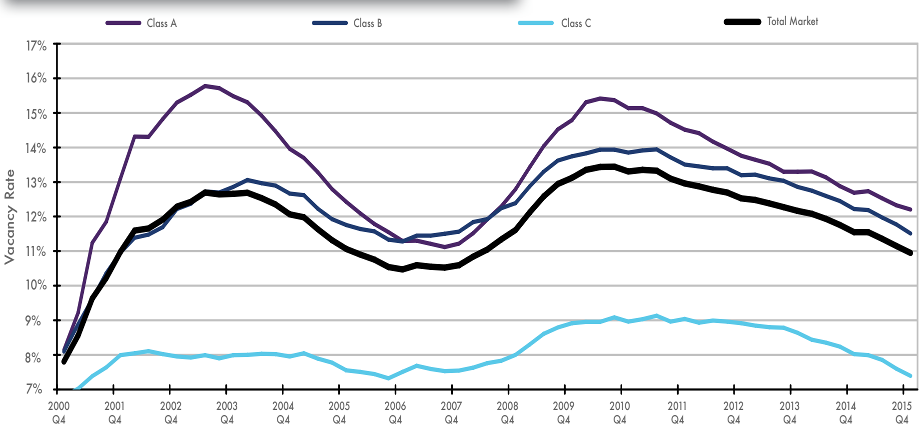


Pasadena, CA • Vancouver, B.C. • Eastern Pennsylvania, PA • Cleveland, OH • Columbus, OH • Houston, TX • Denver, CO • Cleveland, OH • Long Island-Queens, NY • Chesapeake Region, MD • Valuation, Atlanta, GA • Charleston, SC • Edison, NJ • Orlando, FL • Fort Myers, FL • Kansas City, KS • Manhattan, NY • Greenville, SC • Atlanta, GA • Greenwood, IN • Indianapolis, IN • Long Beach, CA • Elmwood, NJ • Boise, ID • Palm Desert, CA • Santa Barbara, CA • Antelope Valley, CA • Dallas, TX • Madison, WI • Oakland, CA • Reno, NV • San Diego, CA • Ventura, CA • San Luis Obispo, CA • Southfield, MI • Santa Maria, CA • Calabasas, CA • St. Louis, MO • Chicago, IL • Victorville, CA • Temecula Valley, CA • Central LA, CA • Sherman Oaks, CA • West LA, CA • Pleasanton, CA • Stockton, CA • Phoenix, AZ • Carlsbad, CA • Industry, CA • Los Angeles, CA • Riverside, CA • Ontario, CA • Newport Beach, CA • Orange, CA • Irvine, CA

US OFFICE MARKET
ENDS 2015 ON A HIGH NOTE

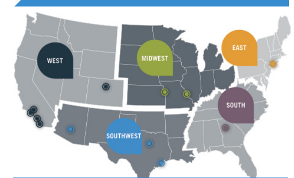
The US office market recorded another vacancy decline in Q4, falling 20 basis points to 10.4%. Higher occupancy is being enjoyed by markets big and small all across the country, but a handful of major markets are seeing a disproportionate share of the activity, while secondary markets move ahead at a more pedestrian pace. Overall vacancy moved down by 50 basis points in 2015, but much of the activity remains concentrated in bigger transactions, and that is making larger blocks of space in hot markets like San Francisco, where the tech sector has boosted job creation, more difficult to secure.

VACANCY RATES BY CLASS 2000-



ECONOMIC DRIVERS

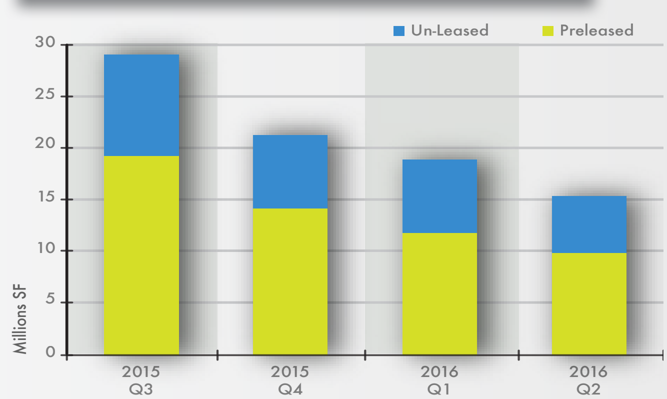
- GROWTH
- EMPLOYMENT
- MONETARY POLICY
- GLOBAL ECONOMY



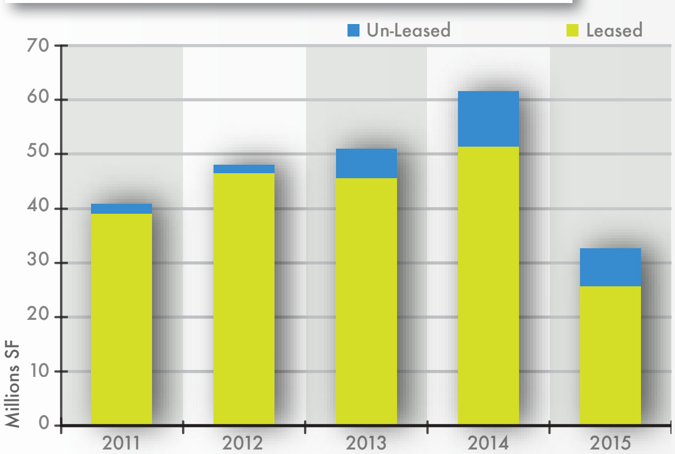
- A LOOK AHEAD

In 2015, the amount of new office product added to inventory moved up in each successive quarter. New deliveries totaled just under 25 million square feet in Q4, which followed 19.9 million square feet in Q3, 18.2 million square feet in Q2 and 17.8 million square feet in Q1. That brought the total inventory of office space in the US to over 10.6 billion square feet. Another 138.8 million square feet is still under construction. The fact that vacancy declined while all that space was coming on line, reflects the cautious approach of developers and lenders who are insisting on high levels of preleasing before the shovels come out. Currently, the supply of new space deliveries strikes a good balance with leasing activity, even with a substantial speculative component. Urban cores are the prime targets for developers looking to build mixed-use projects near public transit, entertainment venues and high concentrations of retail amenities preferred by younger workers. Those preferences are literally changing skylines and landscapes, as the younger set is less inclined to buy homes in the suburbs and the cars they would need to get them to and from work. New product is getting more expensive, however, as land in urban areas is pricey and the entitlement process is complex and time consuming.

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

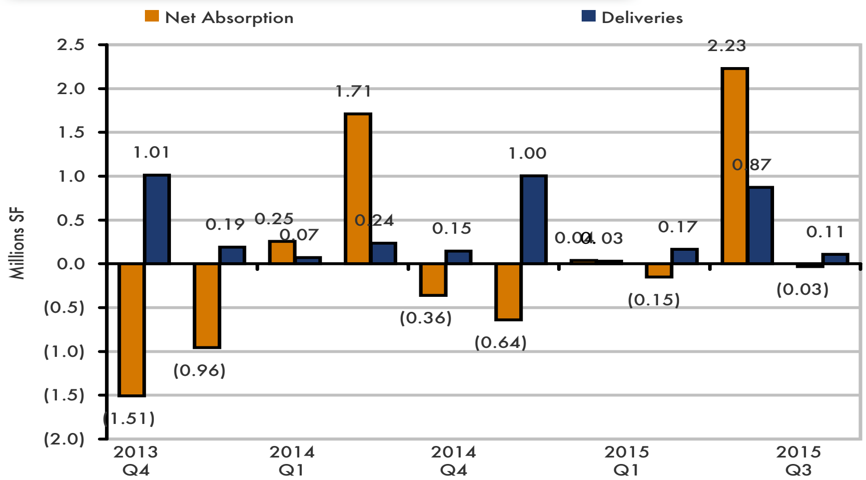


RECENT DELIVERIES
LEASED & UN-LEASED SF DELIVERIES LAST 5 YEARS



In energy markets like Houston, it's a different story altogether. Projects that haven't gotten underway will stay on the drawing boards for the time being, and developers are just finishing up with projects already under construction. Big build-to-suit deals are being delivered, but more of those are immediately offered for sublease before being occupied. So far, the bad news has so far been confined to energy dependent markets, but more major companies around the country are boosting profitability through cost cutting rather than by boosting gross revenues, and that is bound to impact the need for space down the road.

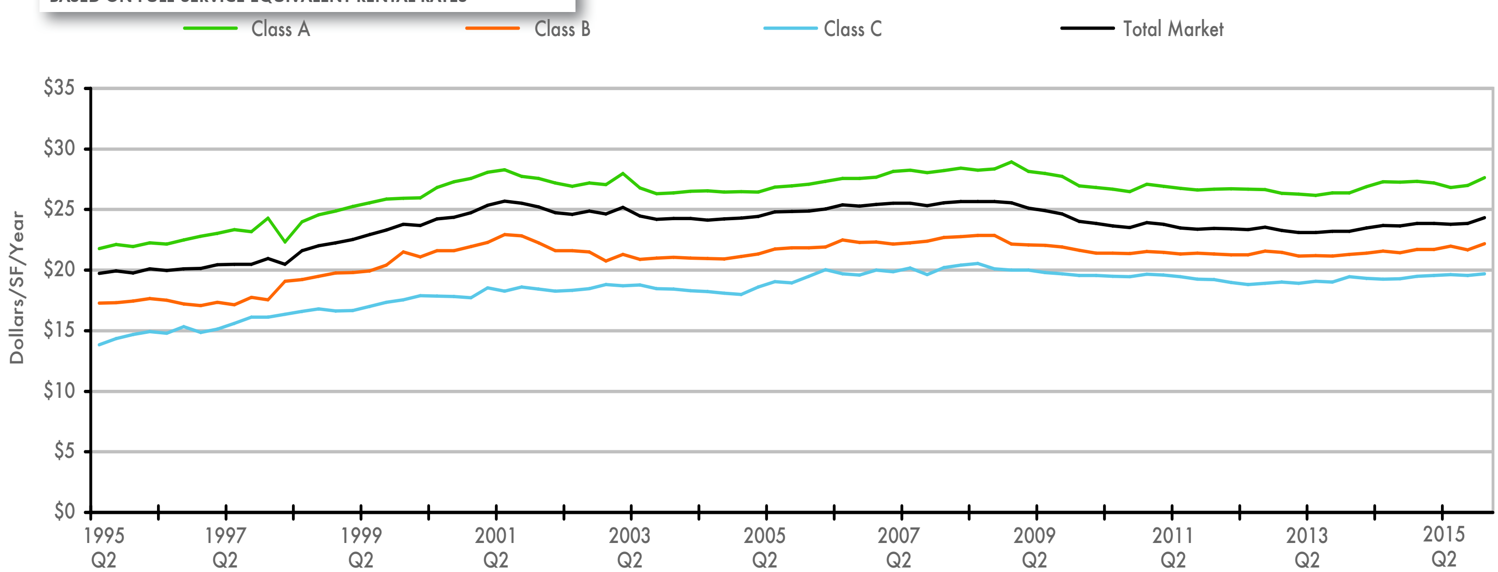
ABSORPTION & DELIVERIES PAST 10 QUARTERS



For 2015, though, net absorption was consistently positive. In Q4, the gain in occupied space hit almost 38.4 million square feet, following a gain of 33.7 million square feet in Q3. For the year, over 117 million square feet of net absorption was recorded. Class A space accounted for 56% of the net absorption total for the year. The total net gain for the year is even more impressive when the fact that many users are taking down less space when they relocate is taken into account. The use of more open space designs and the leveraging of new communication technologies offers greater efficiency. So, companies can afford to pay more per square foot to ensure that the workplace is more inviting to the employees they need to recruit and retain.

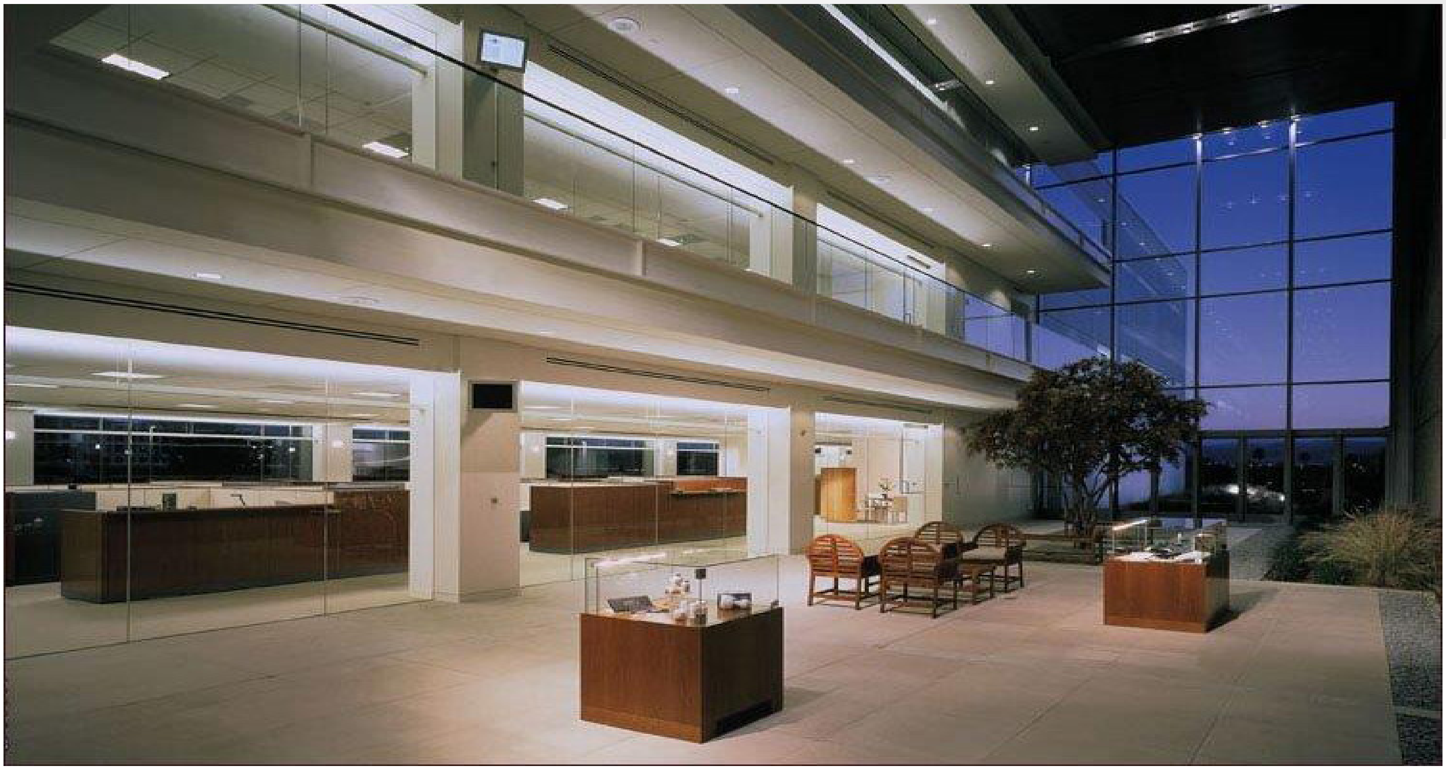
HISTORICAL RENTAL RATES 2000-2015

BASED ON FULL-SERVICE EQUIVALENT RENTAL RATES



Average asking lease rates for the US moved up another $.27 in Q4 to $23.38 per square foot. While rent increases nationwide are the general rule, bigger markets with concentrations of TAMI (tech, advertising, media and technology) and healthcare services firms are seeing the biggest rent gains. Energy markets are not faring as well, and rents are likely to pull back until the energy sector rebounds and the slack caused by under-utilization tightens back up.

Institutions and private investors both large and small, pushed sales activity up through the first three quarters of the year. Cap rates remain at historic lows, with trophy assets trading hands below 5%. Foreign buyers have been busy buying US assets, and that is likely to continue given increasing concerns over the global economy. Their tolerance for risk in US assets rises as conditions deteriorate further in other parts of the world. That has foreign buyers moving into value-add opportunities just to get capital placed in US real property assets.



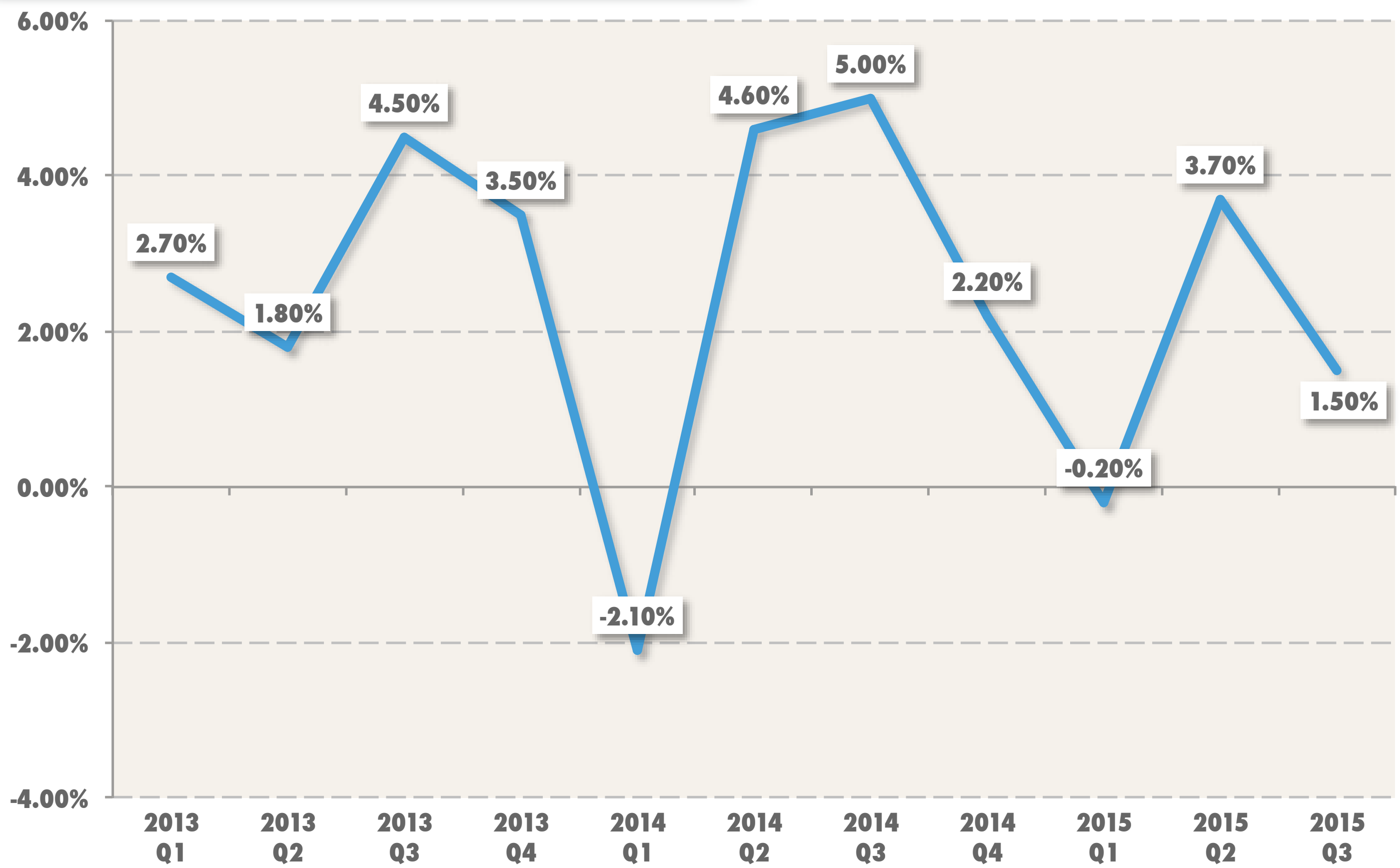
A LOOK AHEAD. The US office market has enough momentum to keep it healthy well into 2016. Employment growth across the US favors office-using businesses, and there should be enough job creation to offset losses in the energy sector in the near term. But, job creation is what net absorption is all about. In Q3, gains in employment slowed, but December's total of 292,000 new positions came as welcome relief. Even so, it's job growth that is keeping many of the experts up at night. Wage gains have been particularly weak, and there are still too many jobs being offered on a part-time basis. That could be due to the Affordable Healthcare Act's expanding employer mandates or rising uncertainty over long term business growth. Either way, jobs and wages are being affected and that will show up in the absorption numbers later in the year.

Despite these concerns, average asking lease rates keep ratcheting up, vacancy keeps moving lower and net absorption remains positive. Unlike other times when markets have approached previous market peaks, today's office market is not overbuilt. That will go a long way to softening the impact of slower growth in the US if concerns at the geopolitical level persist. We will be keeping a closer eye on job and wage growth at the sector level for forward guidance on the direction of the office market. It just can't be denied that the daily economic chatter is becoming more negative. The psychological effect of that shift on real estate decision makers is the big unknown at this point.

GDP GROWTH

The nation's total output of goods and services has been and remains choppy and that has investors taking a cautionary stance. Concerns over a variety of issues that could negatively impact GDP rattled the equities markets into a big sell-off early in Q3, though the major indexes recovered most of the losses by the end of the quarter. Volatility has been on the rise, as investors scrutinize and react quickly to a wide variety of economic indicators, and GDP is front and center. After dismal first quarter growth, the economy bounced back in Q2,

QUARTER-TO-QUARTER GROWTH IN REAL GDP



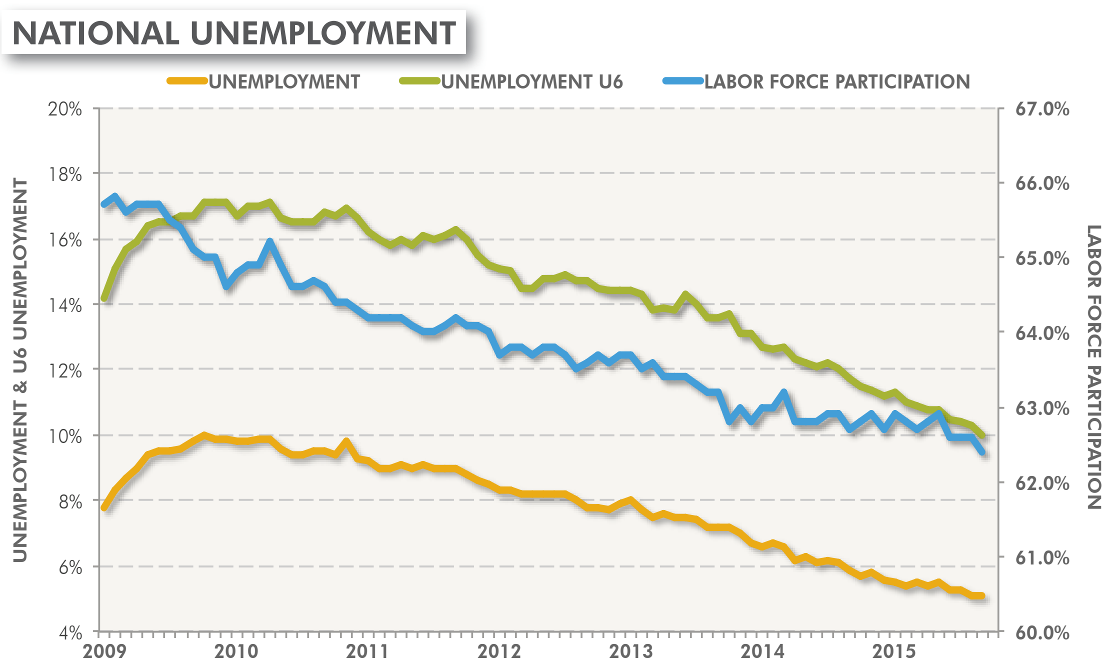
much as it did for the same period in 2014. However, that bounce was not as big as it was last year, and the first estimate for Q3 of 2015, released on October 29th, came in at just 1.5%, well below the 5.0% rise in US output we saw in Q3 of 2014. There is just no denying that the economy is still struggling to keep momentum. Consumer spending, which accounts for roughly 70% of GDP, did improve in Q3, but not enough to offset a drastic drop in inventories, which were less than half of the total reported last quarter. Exports fell in Q3, which is no surprise given the strength of the US Dollar against the world's other currencies. US goods and services are more expensive abroad, and conversely, goods imported to the US are getting cheaper. The most recent report on import prices showed a 1.3% decline. Yet, despite lower prices, imports also fell in Q3, neutralizing the effect of lower exports on GDP performance.

EMPLOYMENT

Through the first half of the year, the news regarding job creation was looking good, with the US adding an average of well over 200,000 jobs per month. Unfortunately, August's total dipped to 136,000 and September came in at just 142,000. The dip was largely unexpected and it has wary investors wondering whether or not the recovery will stall out. The unemployment rate held steady at 5.1% in September and the number of unemployed persons was little changed at 7.9 million. The biggest job gains were seen in the healthcare, information, and business services sectors. However, changes wages remained stagnant in September, losing a penny to $25.09.

The proportion of part-time positions remains a problem, as well. Businesses uncertain about the economy in the near term have been hiring part-time and temporary workers to enable a quicker response to changing markets. The U-6 Unemployment Rate, which includes those workers who are working part-time but would prefer full-time employment, stood at 10.8% by end of September, down 10 basis points since the end of Q2. Over 6 million workers still fall into this category.

The Labor Participation Rate, which many believe is a more accurate indicator of the true state of the job market, was down again in Q3. This metric measures the percentage of those eligible for employment between the ages of 16 and 64 who are currently working. The lack of new jobs and the early exit of Baby Boomers from the workforce have combined to drop this key metric to a four decade low of 62.4% in September — a decline of 30 basis points since June.

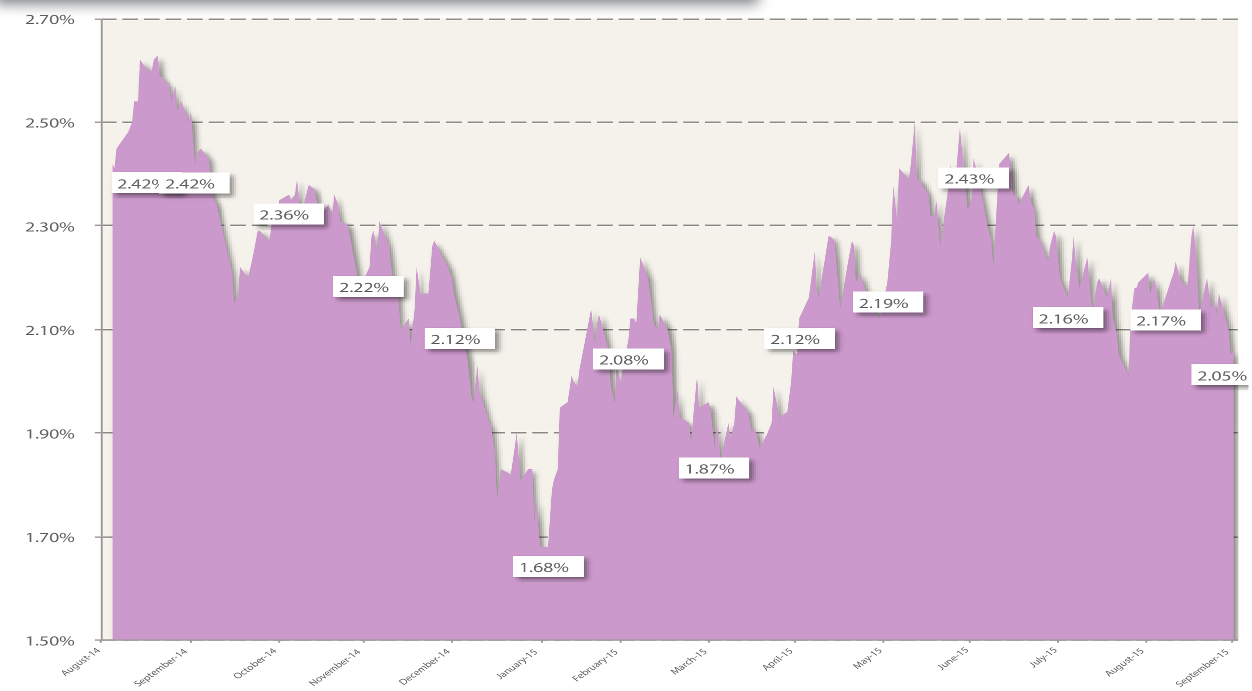


Wage growth has become a growing concern over the past year. Even though, net job gains have lowered the unemployment rate to a post-recession low of 5.1%, wage growth has been stagnant, barely keeping pace with the rise in the consumer price index. This is largely due to the mix of jobs being created and too many of them have been in lower-paying categories. Sluggish wage growth is directly related to lackluster consumer spending, the main driver of GDP. Many of the jobs are in hospitality, retail and restaurant service, which can disappear just as quickly as they appear. Also, there have been substantial layoffs in the energy sector, which, until early this year, had been a main source of full-time, higher-paying positions.

MONETARY POLICY

Fed Chairperson, Janet Yellen and her Board of Governors, have been repeatedly threatening to raise interests rates to signal a reversal of the Fed's aggressive efforts to stimulate economic growth. Yet, they have failed to do so, citing one economic indicator or another for sticking with the status quo and frustrating investors who are looking for guidance on how to move forward. While most experts were sure that the first rate hike would come in September, the Fed, citing concerns over China and other emerging market economies, held off yet again. Now many of those same experts are not forecasting a move on rates until next year.

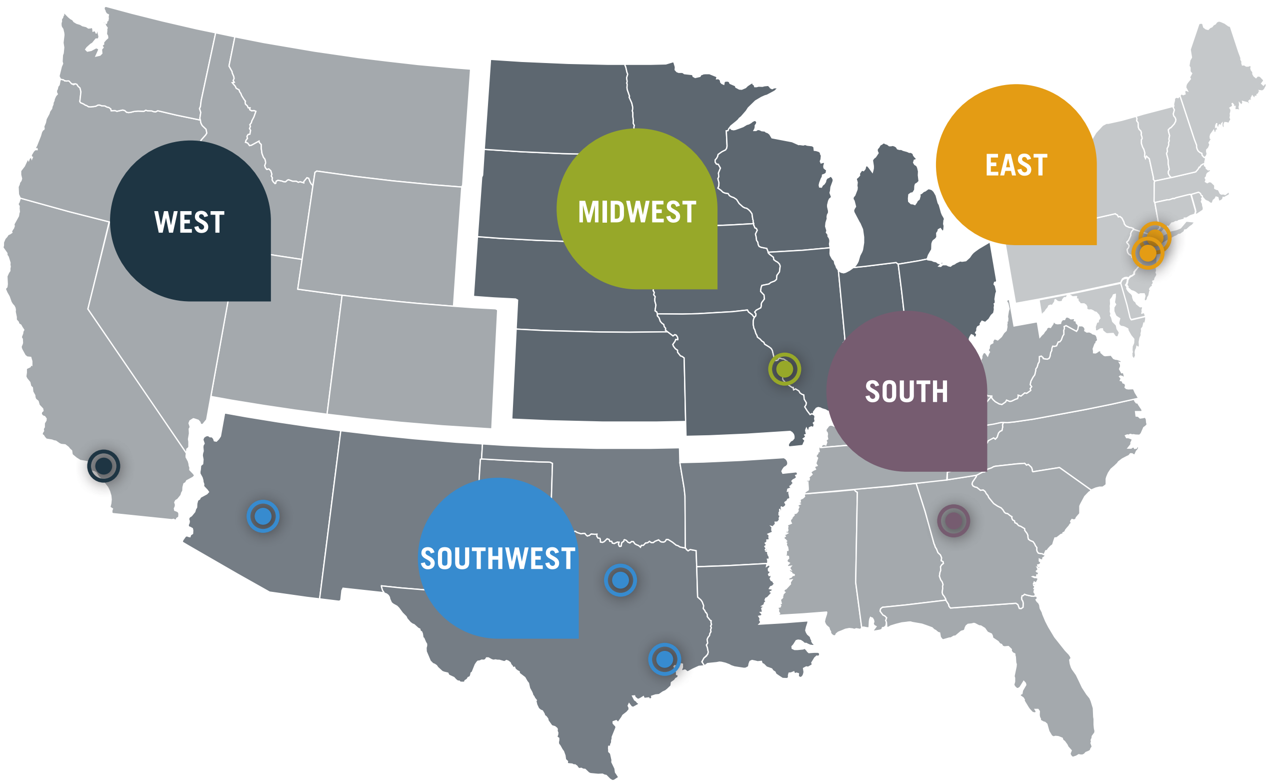
TEN YEAR US TREASURY YIELD
IN PERCENTAGE



Until recently, the Fed was focused mainly on the unemployment rate and inflation targets to trigger action. But now, global economic issues and wage growth concerns are entering into the mix. With so many variables figuring into the equation, predicting Fed actions are becoming even more difficult. Therefore, savers continue to be pounded and yields in other asset classes remain at record low levels.

Real estate borrowers continue to be major beneficiaries of the current Fed stance. Long-term financing is still cheap and that has fueled intense demand to acquire commercial real estate. Low rates have also contributed to cap rate compression in primary and secondary markets from coast to coast. That has raised concerns with some investors that cap rates will decompress when rates finally do move up. Even a nominal increase in cap rates could lead to a significant reduction in property values.

The yield on 10-Year Treasuries has also remained low due to the current interest rate environment's impact on yields across all asset classes. In Q3, the yield on the 10-Year moved back down into the low 2% range after moving higher earlier in the year. Many attribute that change, in large part, to an increase in foreign investor demand precipitated by shaky economic conditions around the globe.



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

ORANGE COUNTY

PHOENIX
DALLAS
HOUSTON

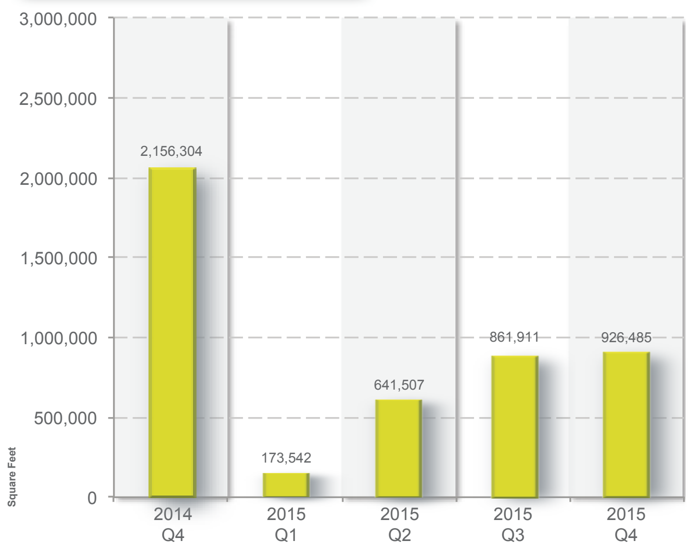
ST. LOUIS

ATLANTA

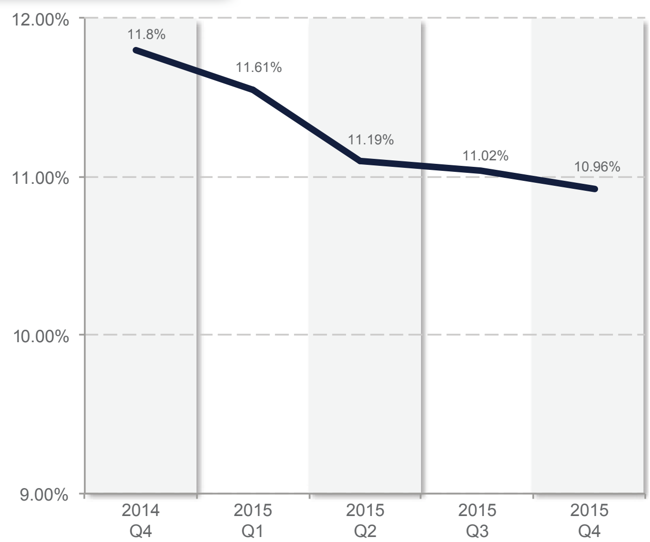
MANHATTAN
NORTHERN NJ

ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



* Buildings with a minimum of 30,000 square feet

TRENDING NOW

Orange County's office market, known for its steadiness and consistency, finished another positive year, but it was a year that fell short of gains achieved in 2014. Job growth in Orange County remained healthy and continued to outperform all but a few of California's 58 counties. The region's unemployment rate fell to 4.2% by the end of November, adding an estimated 47,000 new jobs in just 12 months. Strong employment sectors included professional services, health care, education, technology and hospitality.

By the end of the quarter, 10.96% of the 110 million-square-foot office base* was vacant, a nominal decline of 4 basis points for the period. Net absorption was positive but disappointing in Q4, as just 64,574 square feet of absorption was recorded. That brought the total gain in occupied space for the year to 926,485 square feet, well off 2014's tally of 2,156,304 square feet.

More of the leasing activity is due to the fact that more tenants are migrating from one building class to another, often without the taking of additional space. Class A tenants who signed leases when rates were much lower back in 2010 and 2011 are experiencing sticker shock when they start their search for new space or begin negotiations on lease renewals. That is compounded by higher parking fees and higher tenant improvement costs associated with the new Title 24 energy regulations. Therefore, many of these tenants are opting to move to Class B and C buildings to mitigate long-term occupancy cost. That trend is welcome news to many of those landlords who, until recently, were experiencing much higher vacancy and slower rent growth. Class A rates moved up by 8.3% in 2015, while Class B saw a similar rise of 8.6%.

10.96%	$27.48	926,485	100,000,000	1,844,252
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

ORANGE COUNTY - TRENDING NOW (continued)

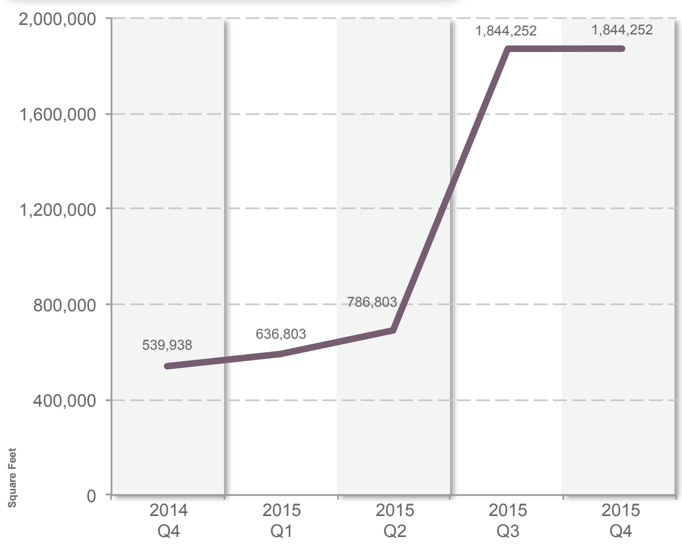
Overall rates were highest in the Greater Airport Area, finishing the year at $30.57 per square foot, up an impressive 13.2%, while Central County moved up 7.5% to end 2015 at $23.07.

Strong interest in the new creative space phenomenon gave the market a boost in 2015, and may, in part, explain the fall-off in net absorption. Tenants looking to attract and retain a younger workforce will pay a premium to secure space that offers greater flexibility through open space designs that leverage the latest communication technologies. Often, they can do so while taking less space because floor plans with fewer private offices reduce the space allocation to each employee. If this trend continues, parking is going to become a bigger issue, as most Orange County office buildings have a parking ratio of four spaces per 1,000 square feet of space. Another significant trend for 2015 was the spike in the acquisition of Class B buildings for conversion to creative space specifications. Rents are rivaling those achieved in Class A buildings, especially for those properties in close proximity to amenities popular with younger workers, including entertainment venues and trendy eating and drinking establishments.

Ground-up development is still very limited. However, there has been a recent increase in interest from users of larger blocks of space, which may improve developer confidence enough to increase construction activity in the near term. The Irvine Company recently completed a 472,000-square-foot, Class A building in the Spectrum Center, and will soon be announcing the signing of several major tenants in the project. The region's largest property owner is expected to achieve rental rates in excess of $48 per square foot for the property, known as 2 Spectrum Center, and there are plans for a sister-tower of similar size in the works.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

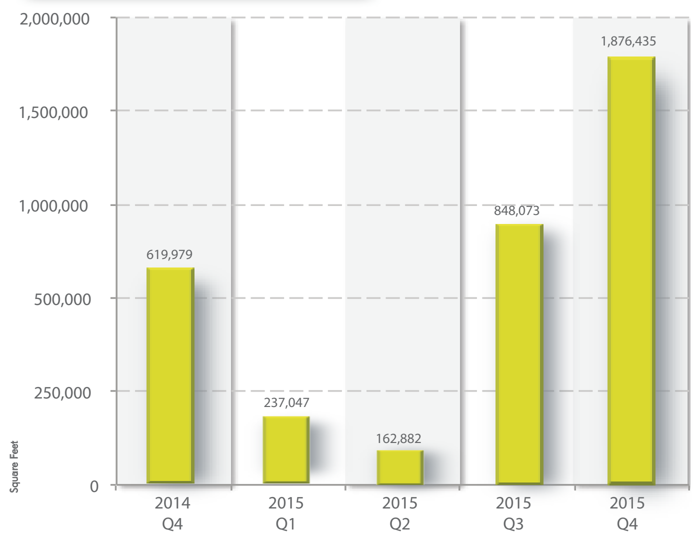


A LOOK AHEAD

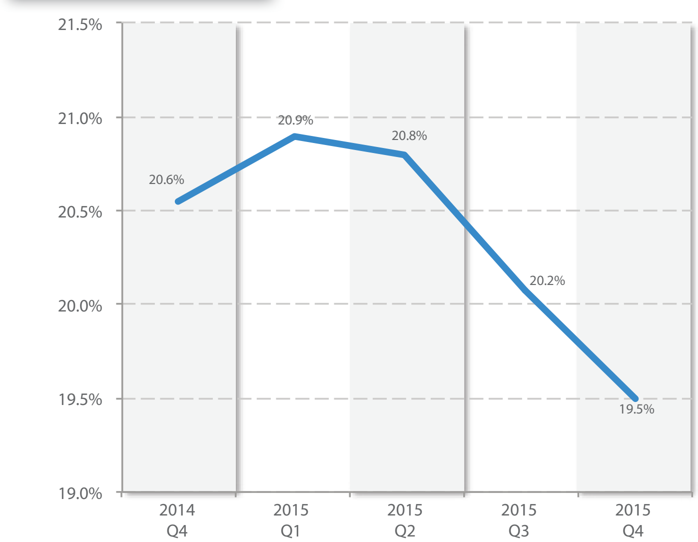
- Leasing activity will move higher in 2016
- Activity in larger size ranges will continue to increase
- Lease rates will move up another 5% to 10% depending on submarket
- More Class B and C buildings will be converted to creative space
- Vacancy will decline into single digits
- Pricing for owner/user buildings will keep moving up

PHOENIX

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Phoenix office market peaked in Q4 to finish the year with solid gains in terms of rent growth, vacancy, absorption and construction. Strong population growth, the relatively low cost of living and the influx of major employers have combined to keep the Phoenix economic engine in tune. Employers like the fact that the region has an abundant supply of land to build more office buildings and more homes for their existing and future employees. State and local government agencies have been busy pursuing new employers from around the country with a variety of tax incentives that reward the creation of new jobs. The unemployment dipped to 5.0% in December, down 60-basis points year-over-year.

Net absorption was positive throughout 2015, but finished the year with a surge by posting a gain of over 1,876,435 square feet, which also equated to 56% the full-year gain of 3,358,813 square feet. Tempe lead all comers in Q4 by adding over 682,000 square feet of occupied space. Midtown Phoenix and Chandler were also big contributors for the quarter, at 283,875 square feet and 139,719 square feet respectively. Midtown, in particular, made a significant comeback in 2015, as many of its Class B and C buildings have been retrofit to lure mid-sized and smaller firms who are attracted by the area's amenities and access to the Metro Light Rail system.

Vacancy, while still high in comparison to other primary US markets, is on the way down, despite the delivery of an additional 3,560,159 square feet of new space in 2015.

19.5%	$22.92	1,876,435	84,301,262	2,613,730
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**SF INVENTORY**	**SF UNDER CONSTRUCTION**

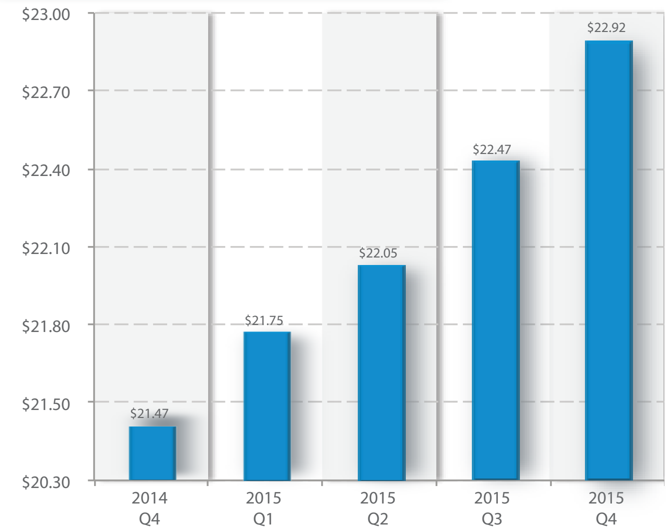
PHOENIX - TRENDING NOW (continued)

The overall vacancy rate dove 70 basis points in Q4, to finish the year at 19.5%, the lowest it has been in seven years. Another 2.6 million square feet was still under construction as the year ended. Over 1.7 million square feet of that under-construction space is the State Farm campus in the Tempe submarket. Four other significant projects are underway, all of them being built on a speculative basis, and indicates developer confidence in the regional office market.

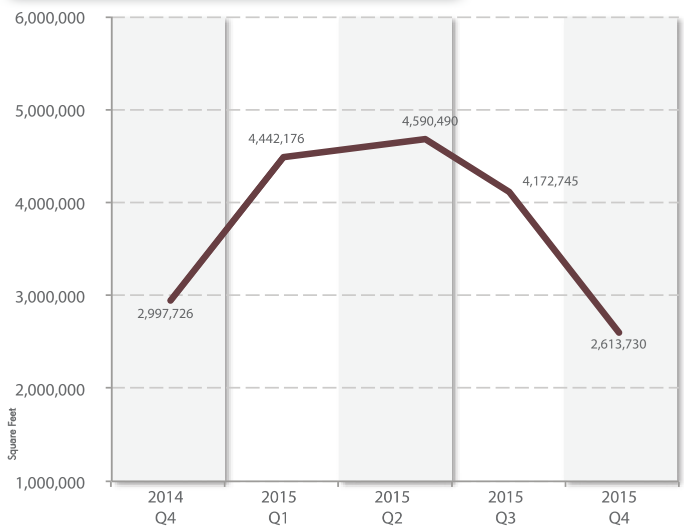
All that new construction has kept rent growth at modest levels thus far, but the average asking rental rates are moving up. In Q4, the overall rate moved up 2% to $22.92. Class A posted a more modest gain of 1.8% to finish the year at $26.46, while Class B rents rose by 2.4% to $20.55.

Even though rent growth has picked up recently, the overall rate is still $3.00 below its previous market peak of $25.92 back in 2007. That fact has not gone unnoticed by investors who see significant upside potential in terms of rent growth going forward. Phoenix Class A rents are still just a third of what they are in New York, and cap rates are still much higher than in other major office markets around the country. That makes Phoenix a relative bargain, and one of the main reasons the area is a priority for investors at all levels. LBA Realty's purchase of four high-rise buildings totaling over 906,000 square feet at Camelback Esplanade was the quarter's largest recorded sale. The $245 million price tag equated to $270.15 per square foot.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

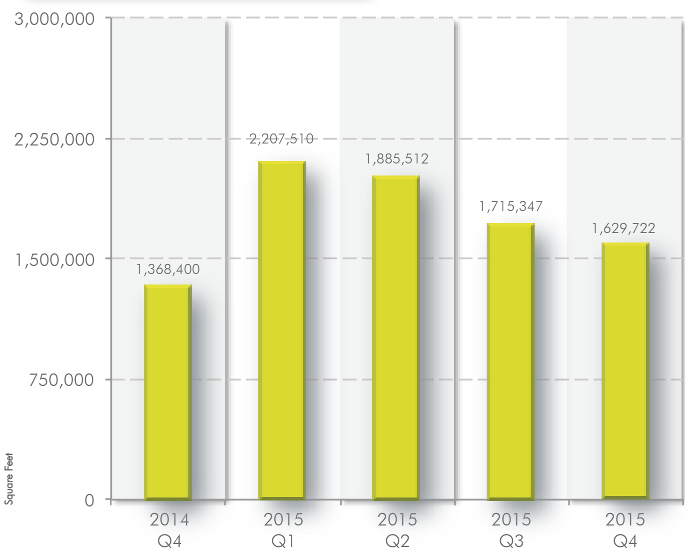


A LOOK AHEAD

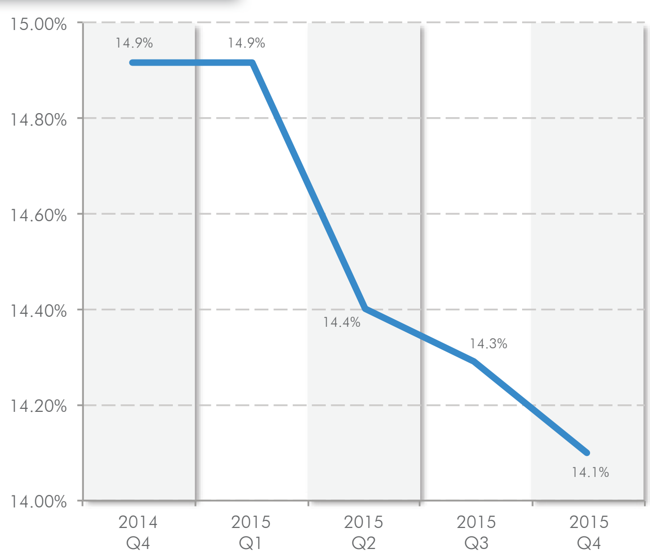
- The Arizona economy will continue to grow at a moderate pace
- Annual net absorption will be remain in the 2 million square foot range
- Vacancy will decline 30-40 basis points next year
- Average asking lease rates will move up by as much as 4% year-over-year
- Construction activity will remain at current pace, keeping upward pressure on vacancy
- No new high-rise buildings will be constructed in Downtown Phoenix for the next four to five years
- More retail properties will be converted to call/tech centers

DALLAS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Dallas/Fort Worth (DFW) economy continues to outperform major markets around the country. Leading economic indicators still point to economic expansion in the region, despite the dramatic drop in energy prices that has hit neighboring Houston's office market hard. DFW's unemployment rate dropped 40 basis points during 2015 to a new low of 4.0%. Strong population growth is still driving economic activity, as it attracts major employers looking for a ready and able workforce. Workers who move to the area experience a high quality of life at a lower price point than in other primary markets across the country.

Moves by big companies have been in the news for several years, and 2015 added more familiar names to the list. Major players like State Farm Insurance, Toyota, and Raytheon have all made recent commitments to the Dallas/Fort Worth area. State and local government agencies are still actively recruiting other corporate users to come to the area through a variety of tax incentives for job creation. Add the lower cost of living and the land availability for long-term expansion, and it's no surprise that DFW is a prime target for major corporate moves. The state of Texas has added more jobs since the last recession than any other state in the US.

Office vacancy moved down 20 basis points to 14.1% during Q4 of 2015, even though nearly 1.6 million square feet was added to the base inventory, which now stands at 351.3 million square feet. The construction boom continues, as over 9.1 million square feet of office space was underway as the year ended. In all, the region added almost 7.1 million square feet of new space in 2015. With the availability of additional land at prices that still make sense to developers, that trend should continue.

14.1%	$23.39	1,629,772	351,334,795	9,133,849
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**SF INVENTORY**	**SF UNDER CONSTRUCTION**
▲	▲	▲	▲	▼

DALLAS - TRENDING NOW (continued)

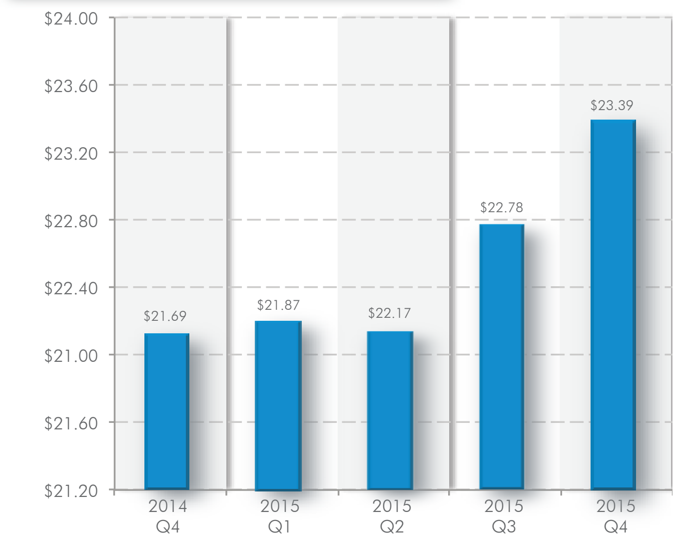
Add in the potential for redevelopment and repositioning of existing assets, and it becomes clear that the region can handle the growth needs of businesses in all asset classes, which cannot be said for other regions of the country that are nearing infill status. Big corporations want to know they can keep growing without pulling up stakes again.

Net absorption topped 1.6 million square feet for Q4, just shy of Q3's net gain of 1.71 million square feet. Suburban submarkets are still seeing the bulk of the occupancy growth. In Q4, 92.6% of the net absorption occurred outside the CBD. While good positive absorption is indicative of a healthy market, there are some concerns about intermittent shortages of larger blocks of Class A space, as the delivery of new product is sometimes inconsistent with active space requirements.

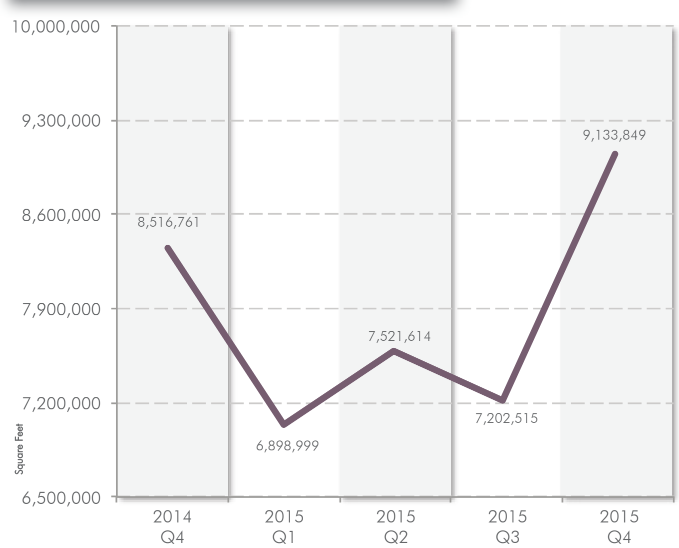
Overall asking rental rates hit new highs with a huge jump in Q4, adding $.61 to end the year at $23.39. Class A leads the way at an average of $27.10, with Class B finishing 2015 at $20.13. Tenants are feeling the sticker shock, even those who are renewing existing leases. They are also feeling the impact of rising construction costs, which means tenant improvement allowances don't go as far as they used to.

The 388,600-square-foot lease to Verizon Building Access and the 332,653-square-foot lease by Real Page were the biggest contributors to leasing activity in 2015. Both those transactions were in the Richardson/Plano submarket. CoreLogic leased another 327,180 square feet in the Las Colinas submarket. Activity is strong across the region, but the Far North Dallas and Richardson/Plano areas are still the most active submarkets overall, especially for Class A space. Though, the Far North Dallas submarket has also seen significant activity in Class B product.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

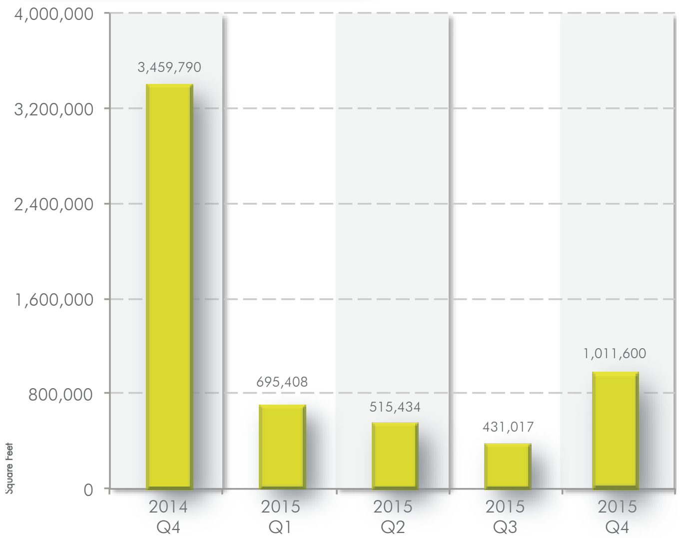


A LOOK AHEAD.

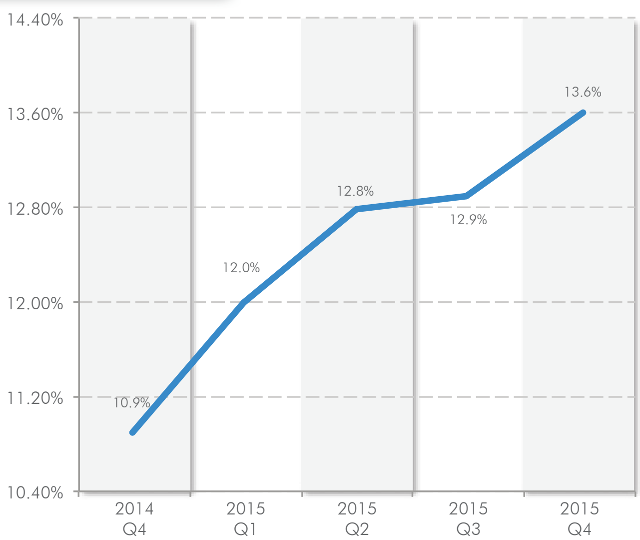
- Tenants looking for large blocks of Class A space may have to wait for new inventory to complete
- Net absorption should increase as activity will outpace new deliveries in 2016
- Vacancy will decline again next year, but will fluctuate based on new deliveries
- Short supply will keep sales prices moving up for investor and owner/user deals
- Major tenants will keep driving build-to-suit activity
- Average asking lease rates will move up by 5% or more in 2016

HOUSTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Houston's office market has been severely impacted by the abrupt turnaround in energy prices that began back in 2014. Until recently, job creation was robust, construction was booming and big energy was absorbing blocks of space in seven-figure increments. The widespread use of hydraulic fracturing technology was at the heart of the boom, but the resulting increase in domestic production contributed to a worldwide surplus and demand from emerging economic powers like China began to fall. At the end of 2015, the crisis was continuing unabated with little indication of a near-term rebound.

Such are the fortunes of a market that depends on the energy industry for half of its economic activity. Capital expense budgets have been slashed, a substantial portion of active wells have been idled and the biggest names in the energy industry are shedding high-paying jobs at a precipitous rate. Oil and gas prices slumped further in Q4 as global supplies of crude oil and gasoline swelled.

On a more positive note, the local economy has been diversifying. Houston has been and will likely remain, an oil town. However, other economic drivers such as the Texas Medical Center (which employs over 106,000 people), the Port of Houston, the Houston Airport System (both major terminals), and the fact that Houston is home to the third most Fortune 500 companies, will soften the impact of the current oil crises and contribute to economic growth in the future. The current situation is bound to change as supply and demand returns to equilibrium over time. We have seen low oil prices before and we have seen them rebound just as many times. So, the long term outlook for Houston in general, and the office market in particular, is good. We just don't know when the turnaround will begin.

13.6%	$28.04	1,011,600	297,844,163	8,613,186
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**SF INVENTORY**	**SF UNDER CONSTRUCTION**
▲	▲	▲	▲	▼

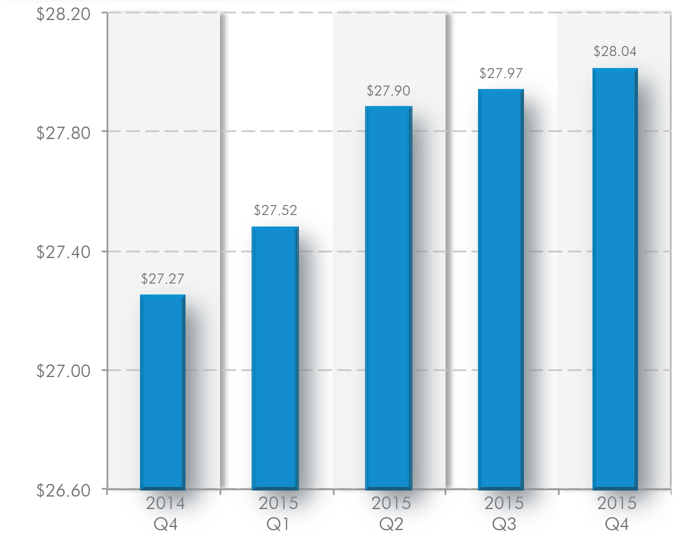
HOUSTON - TRENDING NOW (continued)

The downturn has created a big increase in sublease space. In Q4, another 500,000 square feet of this space hit the market, nearly doubling the total of just a year ago. Most of that space is concentrated in Class A office buildings in the CBD and the Energy Corridor. This is bad news for landlords of direct space, but good news for cost-conscious tenants in other sectors looking to step into higher quality space. They will be calling the shots, forcing landlords to lower lease rates and boost concessions to compete with sublease space. Much of the space offered for sublease was built-to-suit for energy companies that have taken possession, but not occupancy. Most experts agree that this situation will get worse before it gets better, and this will have long-term impact on rent growth for the region even after the energy sector begins to rebound.

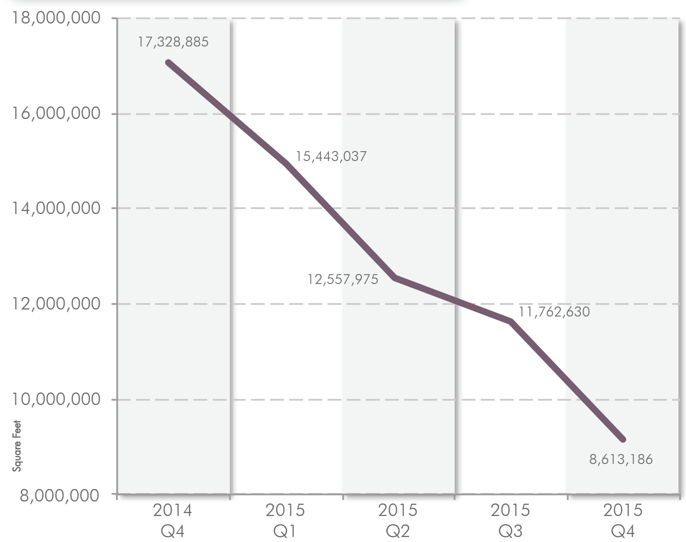
Despite all the turmoil, average asking rental rates across all building classes rose $.07 to finish the quarter at $28.04. However, bid-to-ask spreads are widening as each large block of quality sublease space is returned to available stock. Net absorption remained positive throughout the year, posting gains in occupied space in all four quarters. Q4 posted the highest quarterly gain at 1,011,000 square feet. Class B product is still taking the brunt of the damage, posting four straight quarters of negative net absorption in 2015. The overall vacancy factor moved up 70 basis points in Q4 to 13.6%.

Projects under construction are being completed, as many of them are preleased. However, proposed projects are being moved to the back burner until current trends are reversed. Even if prices do rebound soon, the market will have to absorb excess capacity before significant new construction could resume. Just in Q4, another 3.6 million square feet was delivered and another 8.6 million square feet of office space was still under construction.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

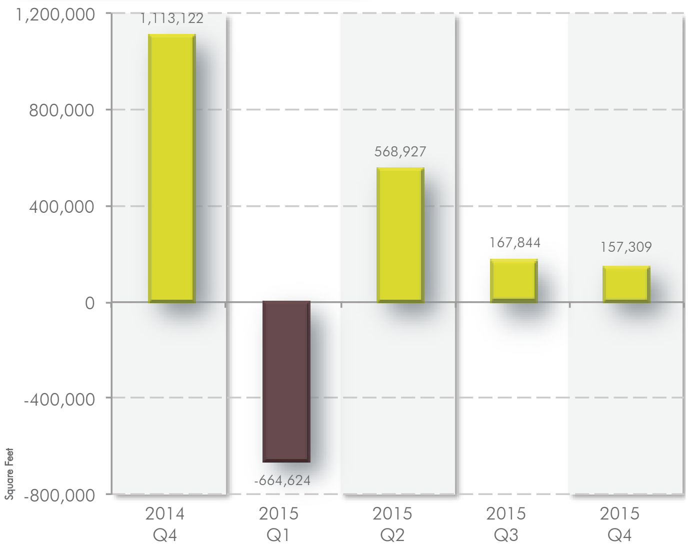


A LOOK AHEAD

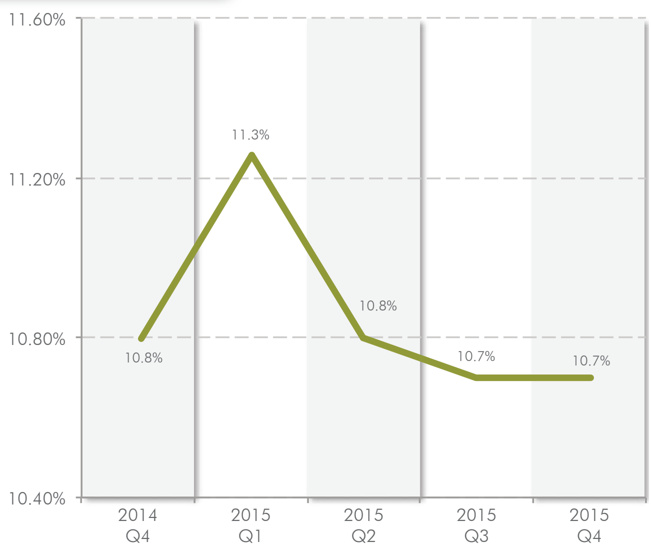
- Net absorption will decline for the next several quarters
- Vacancy will move back up as more large blocks of sublease space hit the market
- Rental rates will decrease and concessions will increase
- M&A activity will increase in the energy sector, which will add to sublease inventory
- Sale of office buildings will slow and cap rates will decompress
- Other employment sectors will mitigate job losses in the energy sector

ST. LOUIS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

St. Louis' 130-million-square-foot office market made consistent, yet modest gains throughout 2015. Supply and demand stayed in relative balance throughout the year, a trend that is expected to continue. The region's economy continues to benefit from the healthy expansion of Boeing and General Motors, major employers that reported steady and strong performance for all of 2015. Boeing, in particular, made significant moves that benefited the office market during the year, and General Motors attracted new suppliers to the area that have been busy hiring new workers. The unemployment rate in St. Louis fell by 80 basis points in the 12 month period ending in November 2015. In all, nearly 31,000 new jobs were created in 2015.

Net absorption performance has directly benefited from the improved regional economy. In Q4, another 157,309 square feet of positive absorption was recorded. Class B accounted for almost 119,000 square feet of that total, while the Class A net gain was a disappointing 13,800 square feet. Absorption has been strongest in the Clayton and North County submarkets, but the entire region is experiencing gains in occupied space. Big move-ins for the year included Charter Communication's lease of 134,500 square feet at The Crossings at Northwest, the 128,250-square-foot lease to Laclede Gas Company at GenAmerica Building, and the 117,615-square-foot lease to Centene Management Company LLC in the Timberlake Corporate Center.

Net absorption, while positive, has not been strong enough to stimulate full-scale speculative construction. Developers remain cautiously optimistic, but not bullish enough to forge ahead without significant preleasing commitments. In Q4, 1,083,773 square feet of space was under construction, but just 153,715 square feet was delivered in all of 2015.

10.7%	$18.30	157,309	130,315,899	1,083,773
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**SF INVENTORY**	**SF UNDER CONSTRUCTION**

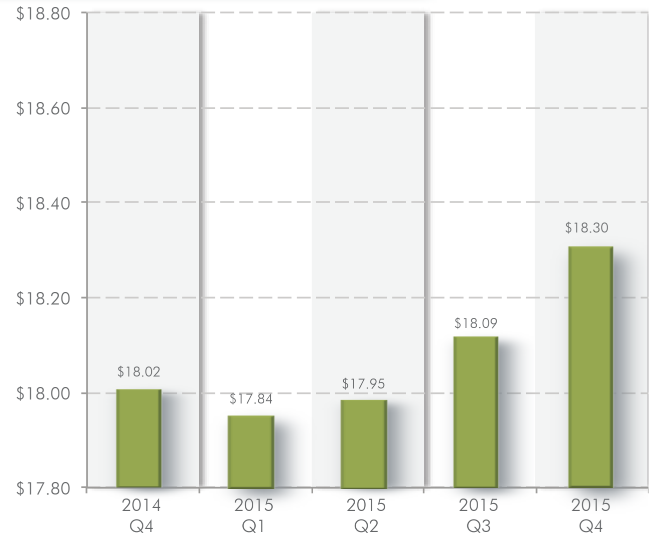
ST. LOUIS - TRENDING NOW (continued)

World Wide Technologies recently announced its plan to build a 205,000-square-foot office tower in the Westport Plaza market area for its own use. The two largest projects currently under construction, which total 720,000 square feet combined, are 100% preleased.

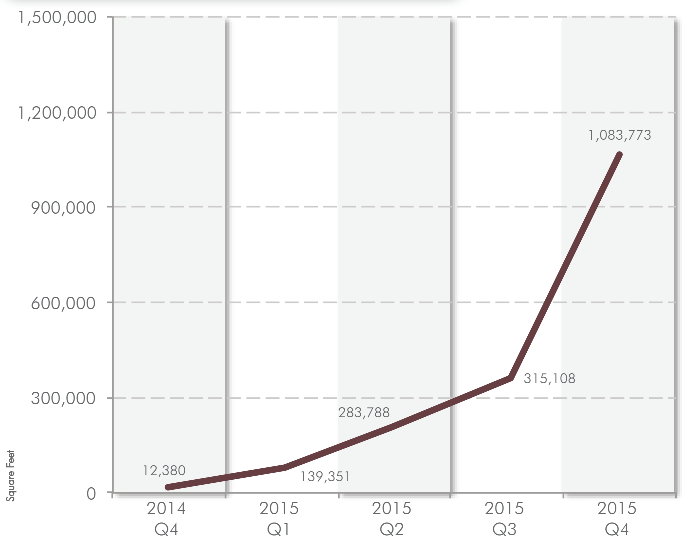
The overall vacancy rate for the region was unchanged in Q4 at 10.7%. Class A vacancy moved up 20 basis points to 8.8% in Q4, but is down 50 basis points since the end of Q1. Class B vacancy declined 10 basis points to 12.9% for the period, but ended up unchanged year-over-year. The steady decline in overall vacancy has led to a modest gain in average asking rental rates. In Q4, the overall rate increased by $.21 to $18.30. The Class A asking rate rose $.41 to $22.26, while Class B moved down a penny to $16.98. Suburban office rates continue to outperform the CBD. By the end of the quarter, suburban rates averaged $18.79 compared to $16.40 for the CBD. There are more large blocks of space available in the CBD, which will keep a lid on growth there, but, the availability of larger spaces in suburban submarkets is declining. Rents there will continue to see stronger growth in 2016.

Sales activity was up for 2015, finishing the year with over 5.6 million square feet of space changing hands, as compared to 3.9 million square feet in 2014. The vast majority of that total was in investment sales, as a lack of available space for owner/users persisted throughout the year. Institutional investors continue to pursue quality assets in the St. Louis area, as they are frustrated by short supply and low cap rates in bigger metro markets across the country. They also like the steady and stable economic growth in Midwestern markets like St. Louis. The recent announcement that the St. Louis Rams are returning to Los Angeles in 2016 was disappointing, and it is bound to have an impact on the regional economy. It's simple too early to estimate what that impact will be.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

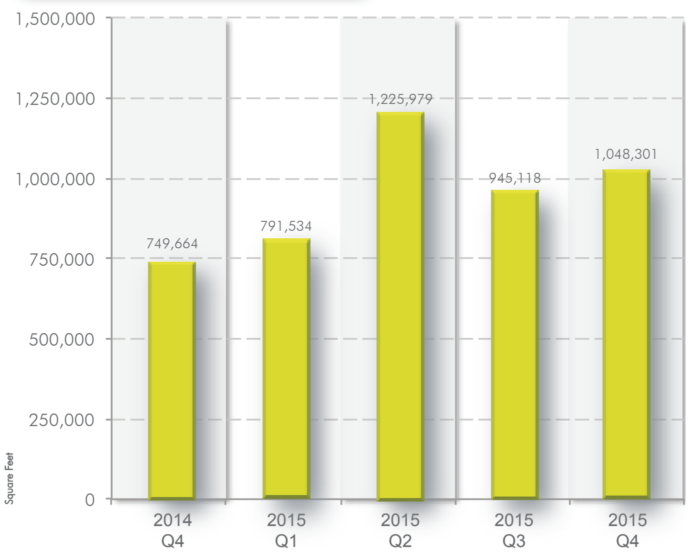


A LOOK AHEAD

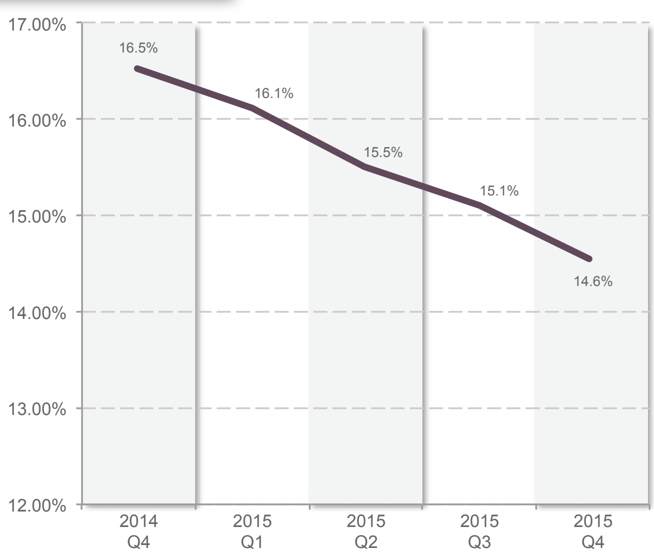
- Leasing activity will slowly increase over the next year
- Absorption will remain positive, but subjected to significant swings based on the timing of larger deals
- Asking lease rates have stabilized overall, but look for increases in Clayton and North County
- Speculative development is still off the table until rent growth improves
- Expect a slow but steady decline in vacancy through 2016
- Growth in the financial services sector will boost office leasing activity

ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

It was another good year for the Atlanta office market. Net absorption remained positive at 1,048,301 square feet and the vacancy rate declined by 190 basis points to 14.6%. The region added nearly 100,000 new jobs during the year and prospects of continued job growth are good, despite economic rumblings around the globe. The Fed finally made its first move on interest rates without changing the psychology of the market in any significant way. Atlanta is still a favorite of major employers who need access to a skilled and educated workforce. The unemployment rate stood at 5.0% at the end of November 2015, which is a decline of 110 basis points in just 12 months.

Net absorption is driven by jobs. So, indications are that Atlanta will have another year of growth in occupied space. However, not every job turns into more occupied space. To offset the cost of rising rents and a more youthful workforce, savvy office tenants have been placing more of an emphasis on efficiency, and in many instances that can be accomplished through changing the design of existing work spaces and furnishings. That could precipitate more in-place renewals, which will negatively impact net absorption going forward.

Quoted lease rates for all building classes combined moved higher in Q4, rising $.28 to $21.74 per square-foot. Class A rose by $.22 for the period and $.43 year-over-year to end 2015 at $25.18, while Class B rose by $1.00 year-over-year to $18.08. Tenants continue to pay a premium for Class A properties in Buckhead, Central Perimeter and Midtown submarkets to be closer to center of the region. Vacancy goes up and prices go down as distance from the city center increases.

14.6%	$21.74	1,048,301	210,242,832	1,618,092
VACANCY	**AVG. SF RENTAL RATES**	**NET SF ABSORPTION**	**SF INVENTORY**	**SF UNDER CONSTRUCTION**
▼	▲	▲	▲	▼

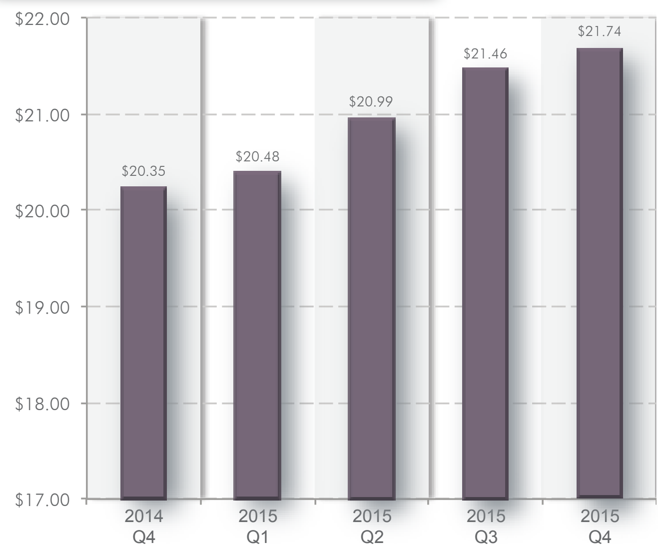
ATLANTA - TRENDING NOW (continued)

Leasing activity topped 1.5 million square feet in Q4, but more tenants are looking to retrofit existing spaces and renew in place to avoid much higher rates. Many tenants currently in the market signed existing leases when rates were much lower, resulting in sticker shock, a phenomenon felt in other high growth areas around the country. Sharply higher rental rates are good for landlords, but may affect expansion plans and net absorption in the coming quarters. Some tenants may be forced to look back to the suburbs to lower occupancy cost, which could curb rent growth in prime submarkets.

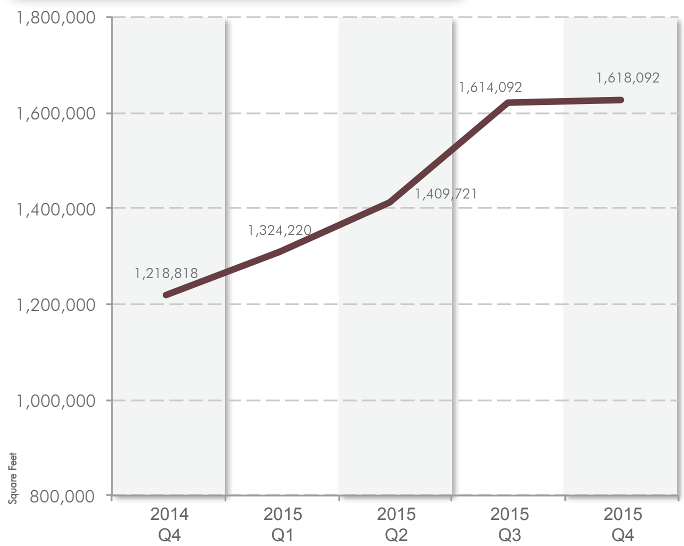
Development remains concentrated in Class A product in Buckhead and the Central Perimeter. By the end of Q4, 1,618,092 square feet was still under construction, including Tishman Speyer's Three Alliance Center and Riverwood 200, the only two spec Class A buildings currently underway. New deliveries for the year added up to just 206,818 square feet, which accounts, in part, for the big drop in vacancy.

However, the long range prospects for new deliveries are good. Major employers including Mercedes Benz, NCR, Synovus, Comcast, and Genuine Parts have all committed to new deals and ground has already been broken on State Farm's new headquarters facility. Those projects also pose a threat to net absorption when completed, as large blocks of older space will be returned to speculative inventory, especially in the Central Perimeter and Northeast submarkets.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

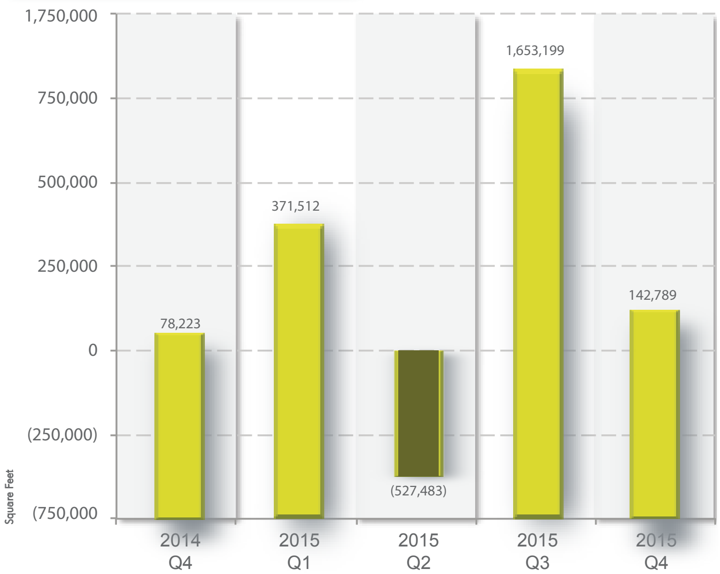


A LOOK AHEAD

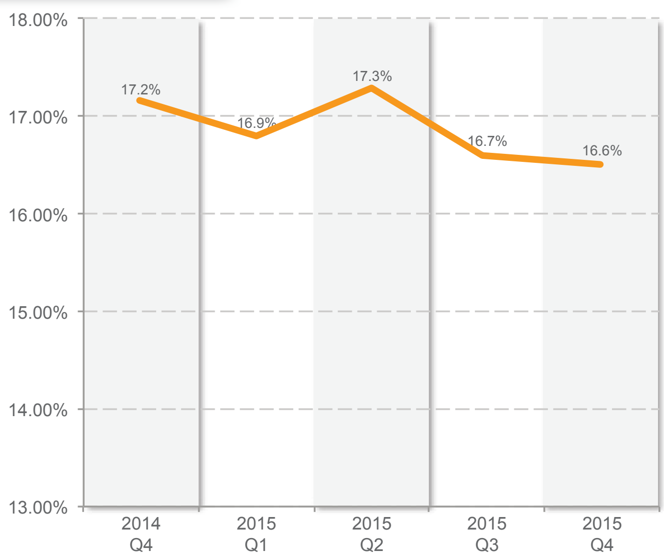
- Rent growth may be peak in 2016 after strong growth over the past several years
- Net absorption will be tempered by tenants who renew in place and retrofit existing space to accommodate growth
- New accounting rules implemented by the FASB could delay expansion plans
- Average asking lease rates in prime submarkets will keep moving up, but at a slower pace
- Suburban submarkets will get more attention from tenants looking to lower occupancy cost
- Speculative development will be limited going forward

NORTHERN NEW JERSEY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The performance of the Northern New Jersey office market has been mixed. Rental rate growth, until recently, has been slow, net absorption has been negative in four of the last eight quarters and the vacancy rate has been stuck in the 14% range since 2011. That has kept speculative construction off the table and new deliveries restricted to just a handful of build-to-suit projects. The region's aging inventory of office product has failed to get the attention of employers who are increasingly focused on satisfying the needs of younger workers looking to be close to transportation hubs, multi-family housing, trendy retailers, entertainment venues and good places to eat and drink.

However, things are beginning to change for the better. New Jersey is finally catching up with the rest of the country in job creation, and that is giving office occupancy in the area a needed boost. Buildings in more urbanized areas that fit the millennial profile are leasing up, while projects in traditional suburban environments are struggling, both in terms of occupancy and average rental rates. By the end of Q4, the average asking rental rate including all building classes stood at $24.32, up $.48 in just a single quarter. The Class A asking rate finished Q4 up $.63 to $27.63, compared to $22.18 for Class B, which registered its own increase of $.51.

Speculative development remains idle as stronger rent growth and net absorption are required to get new projects out of the ground. New construction has been limited to build-to-suit deals and the reposition and upgrade of existing assets. The two largest properties delivered in 2015 were both 100% pre-leased. Prudential moved into its new 750,000-square-foot tower and Summit Medical Group moved into 140,000-square-foot building at 140 Park Ave.

14.1%	$24.32	-33,186	362,968,225	1,935,122
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

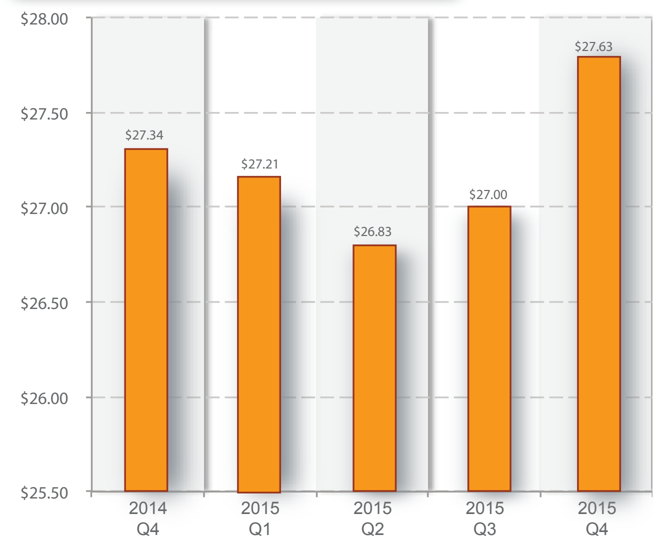
NORTHERN NEW JERSEY - TRENDING NOW (continued)

Of the 1,935,122 square feet under construction at the end of the year, over 1.1 million square feet, is preleased to just two tenants; Bristol-Meyers Squib (555,000 square feet) and Celgene Corporation (550,000 square feet). Private equity investors are still focusing on value-add properties near amenities and public transportation to take advantage of the new workforce trends, while others who acquired under-occupied properties as distressed assets are selling after lease-up is completed. Institutional investors are still aggressively pursuing stabilized Class A properties, as they see the opportunity for accelerated rent growth as vacancy gets closer to single digits.

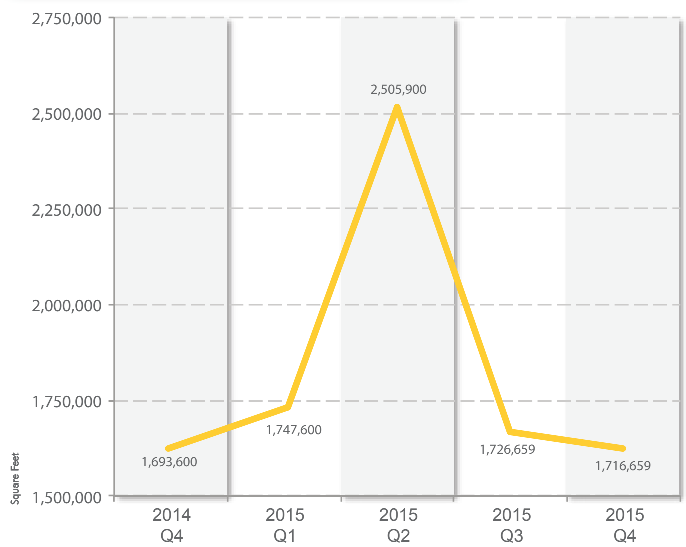
After a 2,226,938-square-foot gain in occupied space in Q3, net absorption for Q4 finished with a nominal loss of 33,186 square feet. Class A absorption was positive in the period while Class B and C buildings finished below the line. Vacancy held steady at 14.1% during Q4, but did drop 40 basis points year-over-year.

Companies looking to acquire office properties for their own use continue to be frustrated by a lack of supply and escalating prices. The Fed's first move to raise its benchmark Fed Funds Rate had virtually no impact on the cost of long-term, fixed-rate financing. But few are able to take advantage of the opportunity, as competition for limited supply has sent values up to the point that even the most motivated buyers are having trouble making sense of the buy versus lease equation. If subsequent rate hikes finally impact mortgage rates, prices may soften and more owners will sense a market peak and become active sellers.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

- Lease activity will continue to improve in 2016
- Net absorption should improve modestly as job creation continues to improve
- Vacancy will decline 1% to 2% with Class A seeing the most activity
- Owner/user sale prices will level off
- Construction will remain limited to build-to-suit transactions
- Asking rents will rise by 3% to 5% for Class A, and 1% to 3% for Class B
- Large users will leverage their size to obtain economic concessions from the State of New Jersey

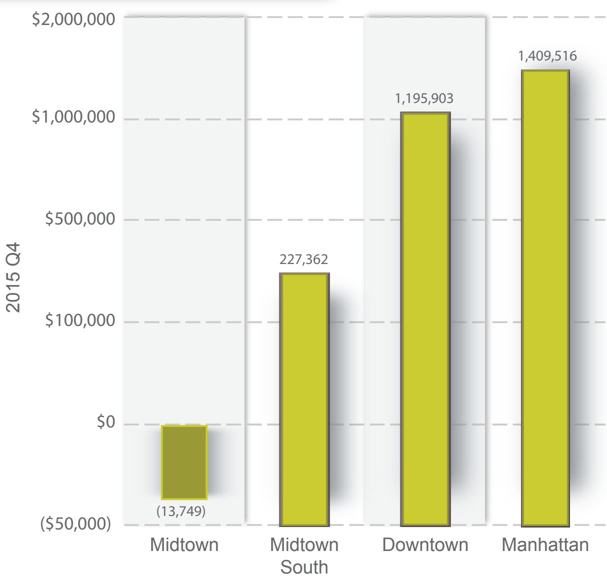
MANHATTAN

TRENDING NOW

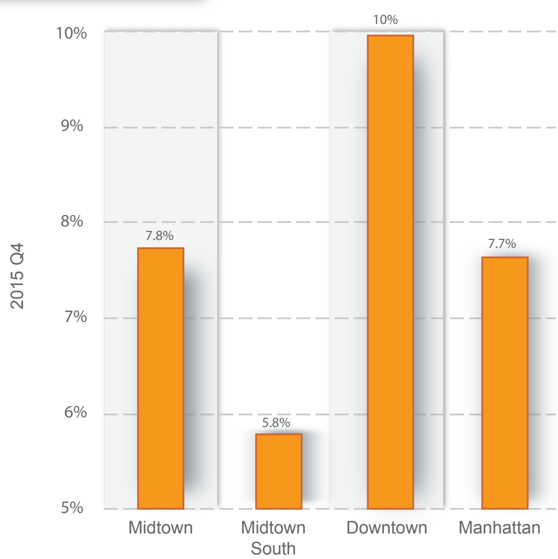
The Manhattan office market stayed on pace in Q4, making 2015 another year of rising rents, strong absorption, lower vacancy and robust construction. Manhattan has three major market areas, Midtown, Midtown South and Downtown, each with distinct characteristics that attract particular user types. In essence, Manhattan's story is a tale of three cities. So, it is important to look at all three together and each alone to develop a clear picture. Lee & Associates NYC tracks buildings with at least 100,000 rentable square feet throughout the city, except for SoHo and NoHo, where buildings greater than 50,000 square feet are quantified. Overall, vacancy in Manhattan fell 70 basis points in 2015, to 7.7%. Net absorption in Q4 hit 1.4 million square feet to bring 2015's total gain in occupied space to 3.33 million square feet. Rental rates moved up as expected, posting gains in all four quarters to end Q4 at $71.94. That has kept developers busy. Over 12.3 million square feet was underway by the end of 2015, with plans for delivery running out as far as 2019.

Midtown has been home to some of the country's largest companies, especially in the financial and legal services sectors. Rents are highest in Midtown, ranging up to $110 per square foot in the Plaza District. The average asking rate for all six submarkets in the Midtown market, ended 2015 at $80.14, up $.77 in Q4. Net absorption in Midtown remained positive for the year, but would have been much higher if not for four straight quarters of negative absorption in the Times Square submarket. Tenants have become increasingly frustrated with the high concentration of tourist traffic, and have opted to pay less for space elsewhere and improve the work experience for employees.

NET SF ABSORPTION



VACANCY RATE



7.7%	$71.94	1,409,516	478	12,345,135
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INVENTORY (MSF)	SF UNDER CONSTRUCTION

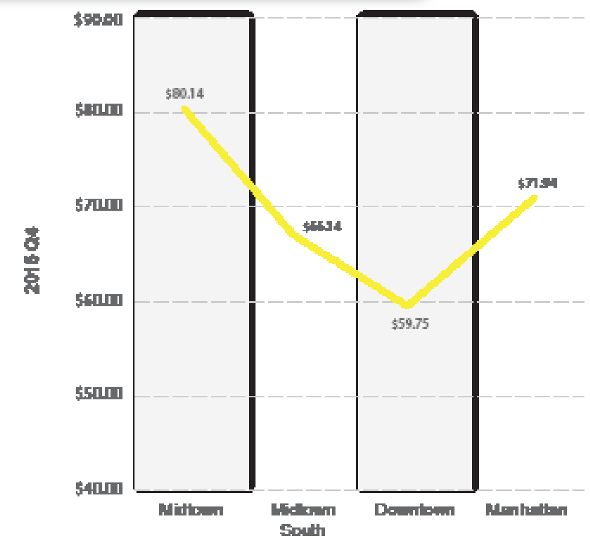
MANHATTAN - TRENDING NOW (continued)

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

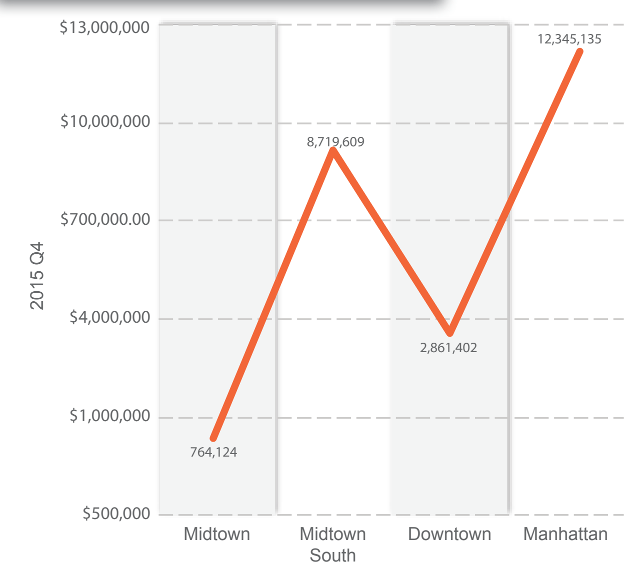
Midtown South is a fast-growing section of Manhattan and is increasingly referred to as "TAMItown" because of the growing concentration of Technology, Advertising, Media and Information companies. These are the businesses that are looking for an alternate work environment that appeals to the growing millennial workforce. Open space designs with more common areas and natural light are more readily available in this area of the city that includes buildings that have been repurposed for use as office space. Rents are lower than Midtown, as well. The average asking rental rate in Midtown South finished the year at $66.14, up from $64.63 compared to end of Q1. Due to several new projects in the vicinity of Hudson Yards, Midtown South accounts for roughly two-thirds of the total amount of space currently under construction.

Downtown, which includes the World Trade Center, has been steadily gaining in popularity in recent years. It is a hybrid market, offering a variety of product types that attract users from both Midtown and Midtown South. In particular, the area has many buildings with larger floor plates that offer more flexibility in terms of space design. Rents are lowest in Downtown, finishing the year close to where it started at $59.55. 3 World Trade Center, a 2.8 million square foot building, is the only building presently under construction.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



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

A LOOK AHEAD

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

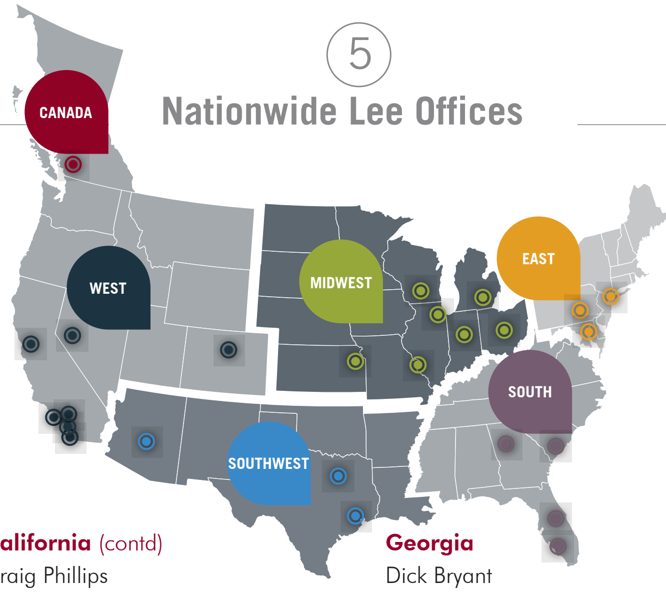
SELECT TOP OFFICE LEASES Q4 2015

BUILDING	MARKET	SF	TENANT NAME
Central & Wolfe	South Bay/San Jose	777,170	Apple, Inc.
1000 Darden Center Dr	Orlando	534,357	Darden Restaurants, Inc.
Square 450	Washington	522,776	The Advisory Board Company
2503 & 2509 Orchard Pkwy	South Bay/San Jose	402,000	Apple, Inc.
3325 Scott Blvd	South Bay/San Jose	300,000	Palo Alto Networks (Expansion Option)
6 16 Chestnut Place	Denver	265,322	DaVita Healthcare Partners Inc.
Paramount Plaza	New York City	260,829	Morgan Stanley
9001 Cypress Waters Blvd	Dallas/Ft Worth	215,000	OneSource Virtual
433 & 435 N Mathilda Ave	South Bay/San Jose	213,117	Apple, Inc.
1511 W Webster Ave	Chicago	207,000	C.H. Robinson Worldwide, Inc.
5353 W Bell Rd	Phoenix	206,333	AAA Arizona
1 Hess Plz	Northern New Jersey	205,000	NJ Turnpike Authority

SELECT TOP OFFICE SALES Q4 2015

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
Market Square	San Francisco	1,046,148	$895.67	3.8%	JPMorgan	Shorenstein Prop.
The Columbia Center	Seattle /Puget Sound	1,703,927	$417.54	5.5%	GAW Capital Partners	Beacon Capital Parnters
Brookfield JV	Washington	1,107,927	$583.79	5.2%	AustralianSuper	Brookfield Office Properties
Towers at Williams Square	Dallas/Fort Worth	1,395,980	$236.39	6.03%	Apollo Management Holdings	The Brookdale Group

Nationwide Lee Offices



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***Please contact individual managers for information in specific markets**

The Lee Office Brief

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