The Lee Office Brief

Q2 2015

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Lee & Associates®

COMMERCIAL REAL ESTATE SERVICES

Lee & Associates Overview

104%
increase
in transaction volume over 5 years

$10 billion
transaction volume
2014

800
agents
and growing nationwide

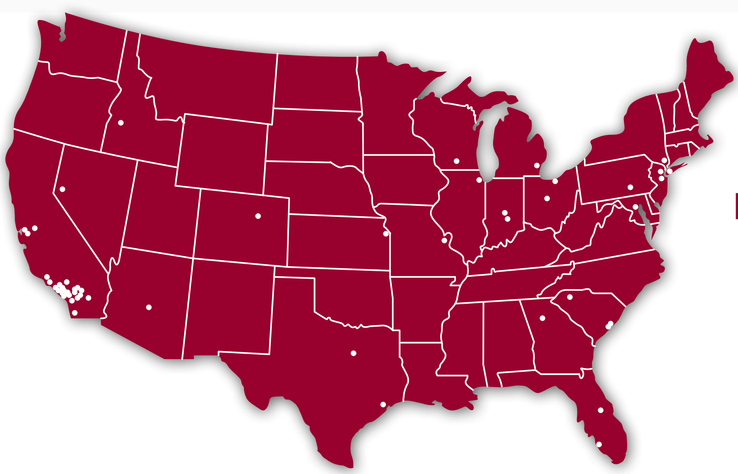
LOCAL EXPERTISE. NATIONAL REACH. WORLD CLASS.

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

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

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

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



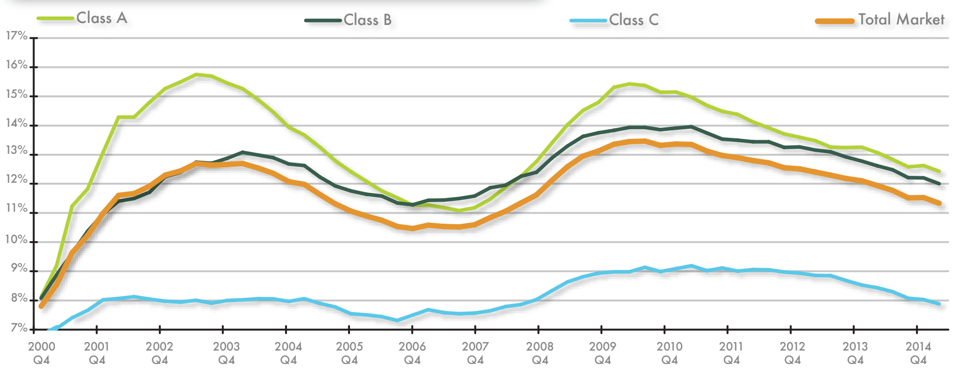
NATIONWIDE LOCATIONS

Eastern Pennsylvania, PA • Cleveland, OH • Columbus, OH • Houston, TX • Denver, CO • Cleveland, OH • Long Island-Queens, NY • Chesapeake Region , MD • 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

OFFICE MARKET KEEPS PACE, BUT ENERGY STATES BEGIN TO FEEL THE PINCH

The US office market has recorded another vacancy decline of 10 basis points to 10.8%. However, most of the activity is concentrated in a handful of major markets, secondary markets make more modest gains. In the past four quarters, the overall vacancy rate has moved down by 30 basis points, and with so much of the activity concentrated in larger spaces, larger blocks of space are becoming harder to find in hot markets like San Francisco and New York and where growth in the TAMI sector has boosted job creation and sent rents to record highs.

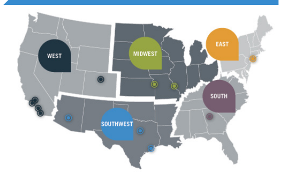
VACANCY RATES BY CLASS 2000-2015



ECONOMIC DRIVERS

Click below for info on...

- GDP GROWTH
- EMPLOYMENT
- MONETARY POLICY
- GLOBAL ECONOMY



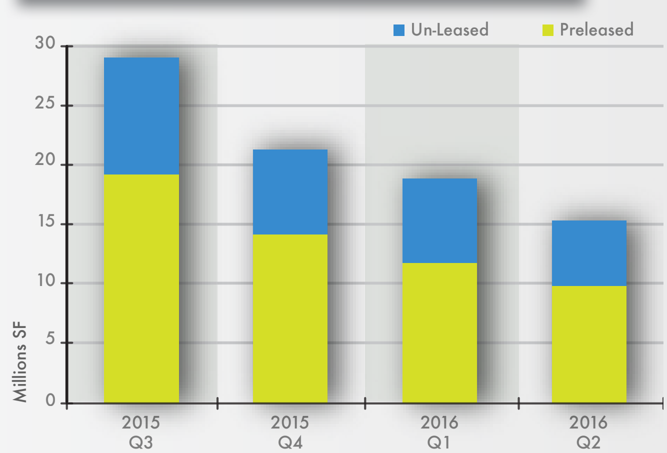
SKIP AHEAD TO MARKET SNAPSHOTS

New deliveries were little changed over Q1, down slightly to 16.9 million square feet in 249 buildings. The country's existing base of office space now stands at 10.55 billion square feet. In the past four quarters, over 67 million square feet of space has been completed, and another 133.5 million square feet was underway by the end of Q2, which has 2015 on pace to surpass 2014 in terms of new inventory.

Central Business Districts in the biggest markets are still where the action is, mostly in mixed-use projects with residential and retail components. Speculative development activity is still strong due to optimistic forecasts for strong rent growth and net absorption, except in selected energy market like Houston that are seeing spec projects put on hold until the energy sector returns to better health.

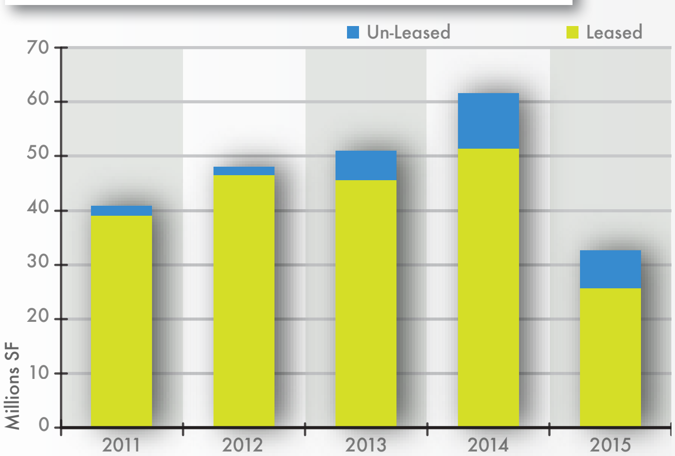
FUTURE DELIVERIES

PRELEASED & UN-LEASED SF IN PEROPERTIES SCHEDULED TO DELIVER



RECENT DELIVERIES

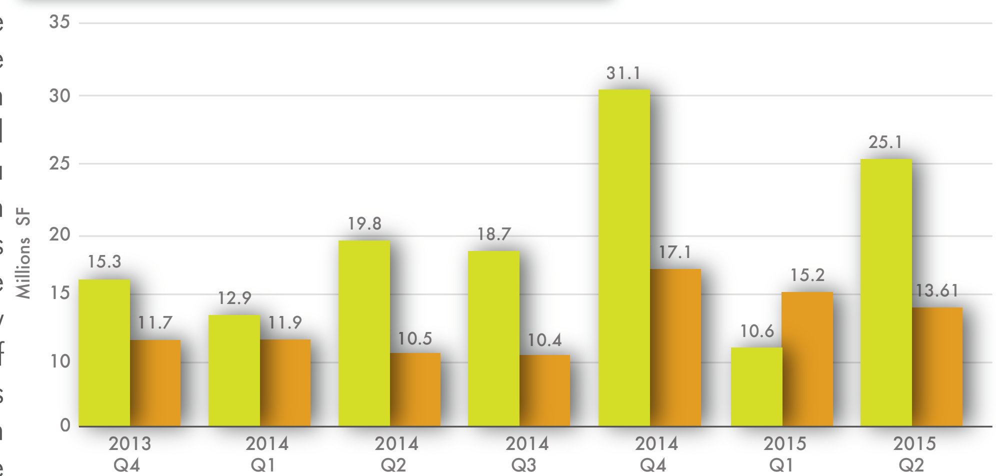
LEASED & UN-LEASED SF DELIVERIES LAST 5 YEARS



Secondary markets are seeing more developments, as well, especially those with the lowest vacancy rates. Lenders are still looking for substantial prelease commitments to fund new projects in those areas.

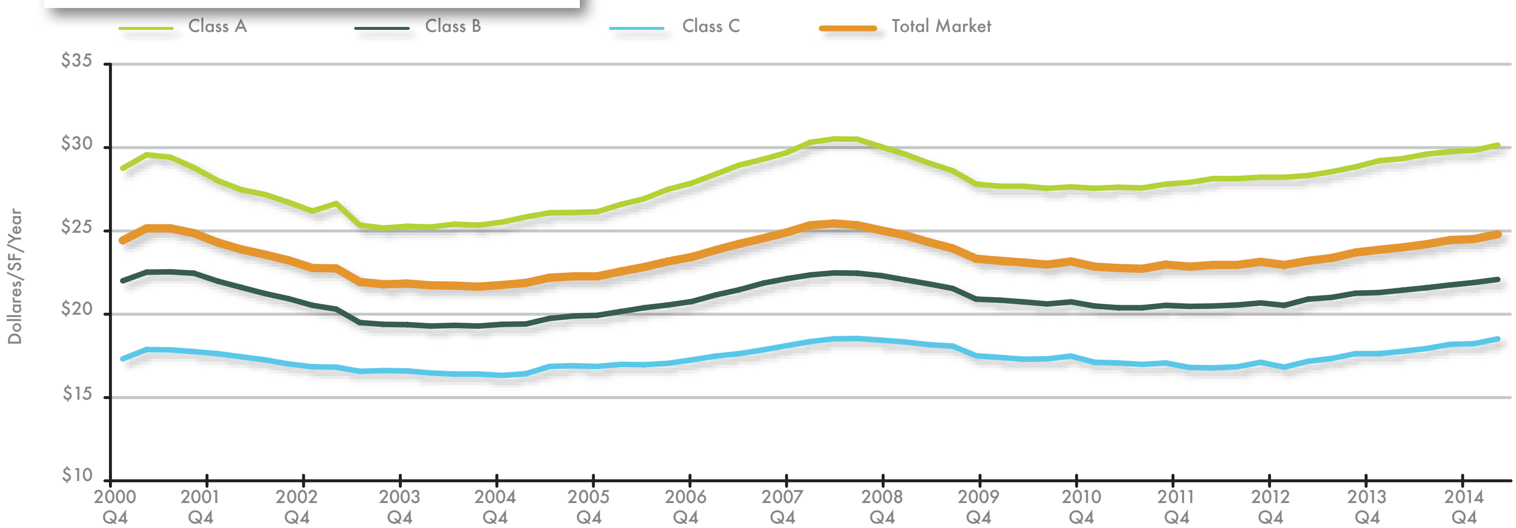
Net absorption for Q1, remained positive at 30.54 million square feet, more than doubling Q1's total of 14.84 million square feet, but more in line with Q4 of 2014's total of 37.7 million square feet. Net absorption for this year will remain near 2014 levels, but the reversal of fortune in the energy markets, where growth had been strongest, could hurt the year end totals. Pre-commitments for large blocks of space in those areas have softened the negative impact of net absorption through the first half of the year. Second half absorption could be a different story, as the slowdown in energy market activity shows up on the absorption side of the equation. Class A led the way again in Q2, posting a gain of 16.54 million square feet. Class B added another 11.23 million square feet to the total. Users are increasing employee density with more open floor plans and remain willing to pay higher rental rates in return. It is difficult to quantify the exact impact of this phenomenon, but it will become more apparent as the trend continues.

ABSORPTION & DELIVERIES PAST 7 QUARTERS



HISTORICAL RENTAL RATES 2000-2015

BASED ON FULL-SERVICE EQUIVALENT RENTAL RATES



Average asking lease rates for the US moved up another .7% in Q1 to $22.91 per square foot. Rent increases were recorded nearly all markets around the US, but bigger markets with concentrations of TAMI (technology, advertising, media and information) and healthcare services firms are faring best. Energy-based markets like Houston are seeing rent growth level off, as near-term demand for space has slowed dramatically and the amount of sublease space has risen as energy tenants try to shed excess capacity. Class A space in downtown areas and urban cores, rich in amenities, are still seeing the strongest rent growth.

Domestic institutions that see substantial rent growth in this up-cycle as likely, compete aggressively for trophy assets in major markets, which has kept cap rates compressed to historic lows. Foreign buyers motivated to safely place their capital in light of shakier economic conditions in other parts of the world, compete directly with US investors at all levels, which has exacerbated the cap rate decline. Secondary markets are now seeing the benefit of the increase in demand, as buyers of all kinds, hungry to acquire product, are looking in more markets to place their capital. Value-add opportunities in markets with well-located older product are gaining in popularity, as well. Repositioning of strategically located, older assets is being undertaken to attract tenants that hire younger workers who like the amenities and convenience of urban areas.

A LOOK AHEAD. The US office market should remain strong through the end of 2015. Overall growth for office-using businesses is broad-based and all the key market metrics signal continued health for the office market for the next several quarters. However, the potential consequences of anticipated actions of the Fed to raise rates and the double-edged sword of lower energy costs could challenge the status quo going forward.

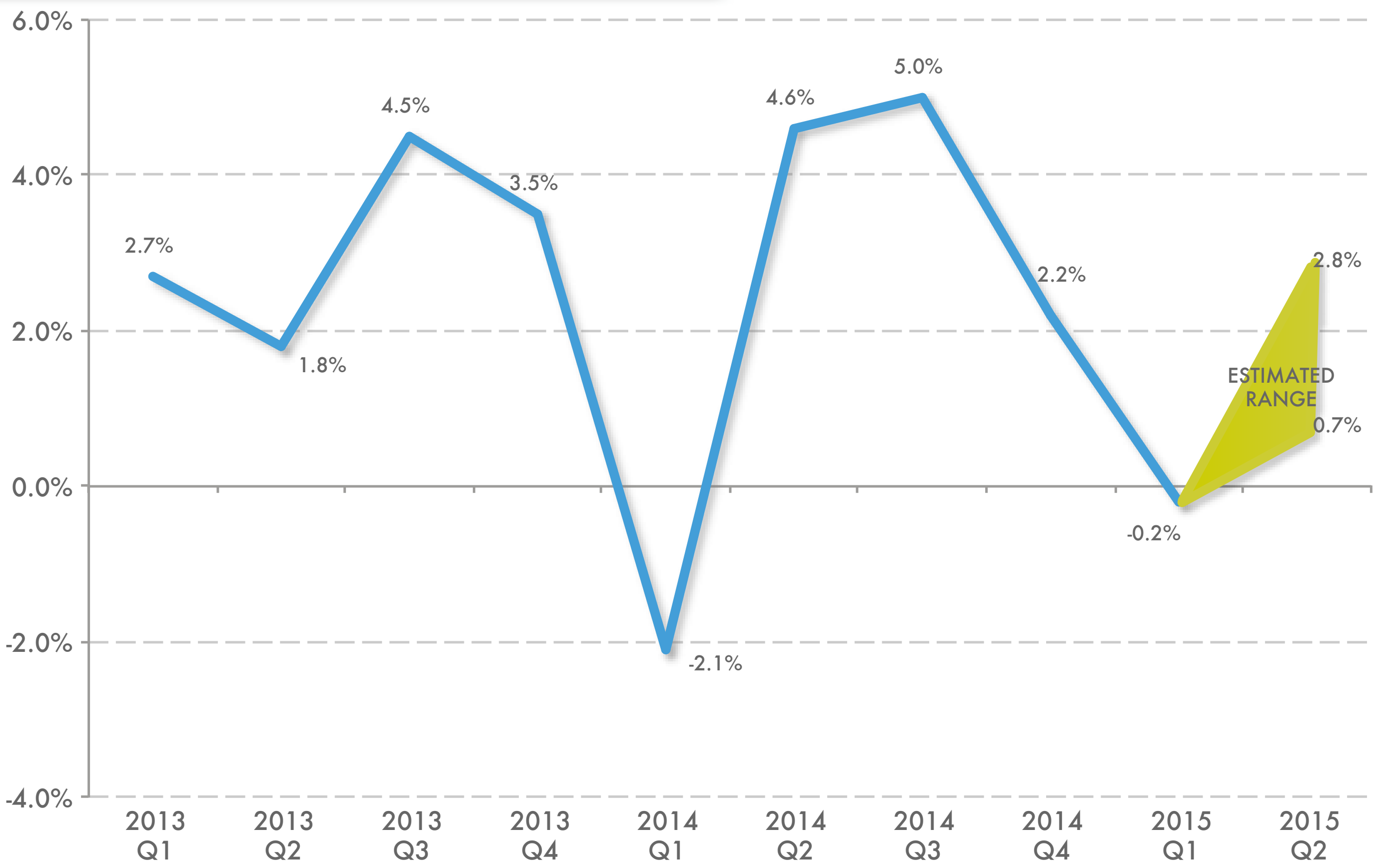
Low oil prices will be with us for the near term and that will give consumers more buying power and lower operating costs for US businesses. But, tougher times are ahead for energy dependent states that will see lower office leasing activity, slowing of net absorption and a big pullback in new construction until the energy crisis wanes. More layoffs in high-paying energy job categories are likely and the significant slowdown in domestic oil production will continue to put downward pressure on office markets in energy states. Employment gains in other sectors, (even in energy markets) are still accelerating, and that activity should be strong enough to offset job losses in the energy sector. While the lower cost of fossil fuel has its advantages in terms of lower operating costs and more disposable personal income, the effects on the growth of the office market will be noticeable going forward.

Vacancy rates will continue to decline and net absorption will remain at least at current levels. However, absorption and leasing activity slow in some markets due to lack of quality supply. Cap rates will remain compressed due to record high demand, but they could begin to move in the other direction once the Fed makes a move on interest rates. Higher interest rates means higher yields on alternative investments, which could hurt the equities market and pricier real estate markets in the short term. Office development should remain at current levels for the near term (except in energy markets) with CBD’s and core suburban markets seeing the bulk of that activity.

GDP GROWTH

The nation's total output of goods and services picked up the pace in 2014, approaching 3% for the year. Unfortunately, the first quarter of 2015 turned into another disappointment, as the third and final estimate of GDP growth came in at -.2%, and estimates for Q2 growth are not optimistic. The more bearish prognostications run as low .7%, while more optimistic predictions run as high as 2.8%. By the time this report is posted, the first official numbers will have been released, subject to two more revisions in the following 30 day period. Even if

QUARTER-TO-QUARTER GROWTH IN REAL GDP



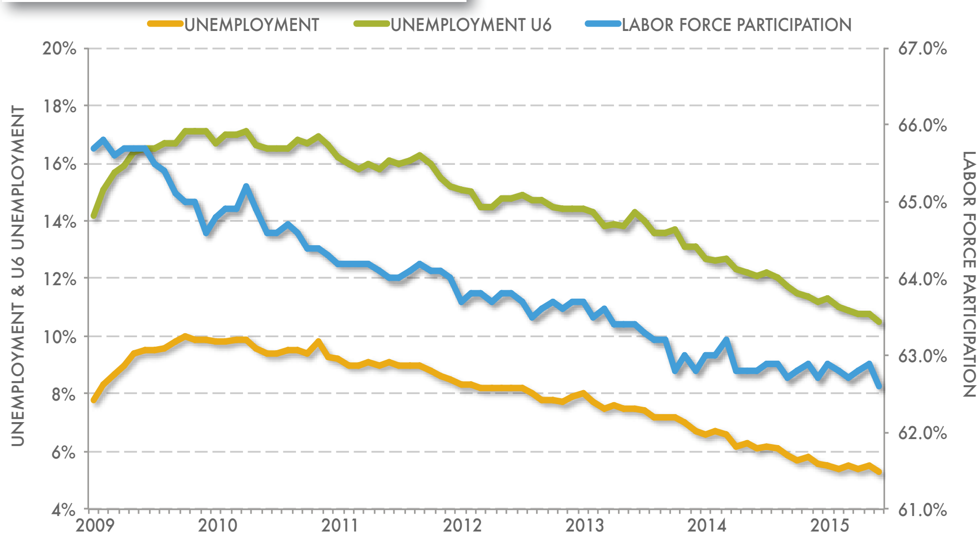
the actuals meet higher estimates, growth for the first half of the year will be lackluster. Weather was blamed for a poor first quarter, just as it was in Q1 of 2014. Consumer spending and wage growth are sluggish and even though US businesses are expanding, they are doing so cautiously, keeping trillions in cash on the sidelines as a hedge against another economic stall. The Federal Reserve Bank's recent Beige Book estimates call for moderate growth in total output and the Congressional Budget Office's annual economic forecast is calling for GDP growth of 3% for the year. However, last year, Q2 and Q3 did the heavy lifting with 4.6% and 5.0% growth respectively, and no one is predicting that kind of performance for the same periods this year. Nearly 70% of GDP comes from consumer spending. So, until that picks up, we can expect more of the same in terms of overall economic growth.

EMPLOYMENT

Job growth remained positive through the first half of the year, and that has helped fuel net absorption in all product types. Monthly job creation has averaged 250,000 over the past twelve months, but June fell short at 223,000. Paradoxically, poor job numbers tend to give the equities markets a boost, as investor concerns over a near-term move by the Fed to raise rates are softened. The unemployment rate fell 20 basis to 5.3% in June, but most of the drop was due to workers falling out of the calculation because they were not actively pursuing new employment. Conversely, a healthy monthly increase in jobs is often accompanied by a rise in the overall unemployment rate, as more workers rejoin those counted in the report by resuming their search for work

The proportion of part time positions remains a problem, as well. Too many businesses remain uncertain about the economy in the near term and opt to hire part time and temporary workers to enable a quicker response to changing markets. At mid-year, over 6.5 million people who prefer full time employment, were working part time because full time positions were unavailable. The U-6 Unemployment Rate, which includes those workers, stood at 10.9% by end of June.

NATIONAL UNEMPLOYMENT



The Labor Participation Rate, which many believe is a more accurate indicator of the true state of the job market, was down again in Q2. 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 62.6% after June's 10 basis point decline.

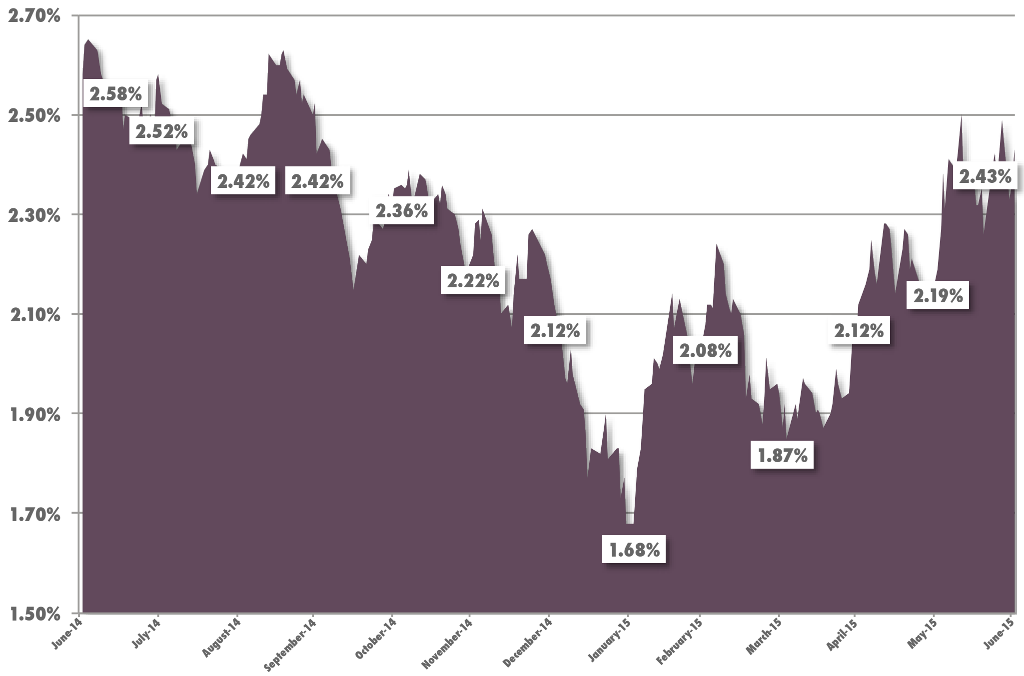
Wage growth is becoming as much a concern as job growth. Gains in real wages have been both hard fought and disappointing. Too many of the jobs being created just don't pay enough to increase consumer spending to the degree that improves GDP growth. Many of the jobs are in hospitality, retail and restaurant service, which can disappear just as quickly as they appear. So, a significant chunk of the US populations still feels like the recession never ended, and spending habits have been influenced as a result.

The pullback in the energy sector is also affecting job and wage growth, as jobs in in energy-related industries generally pay well. Layoffs in the field are now common. Schlumberger, one the largest oil field services firms in the US, has already laid off 10,000 workers, and others like Halliburton and Baker Hughes have made similar moves as oil exploration and extraction activities have been scaled back. Fortunately, the TAMI (technology, advertising, media and information) and healthcare services sectors have been expanding its workforces, which has mitigated job losses in energy states. Financial services firms are also getting back into the hiring phase.

MONETARY POLICY

As the economy continues its uneven recovery, more and more attention is being paid to the actions of our nation's central bankers. Fed Chairperson, Janet Yellen and her Board of Governors, have been repeatedly warning the markets of an upcoming move to raise interests rates and a move away from the Fed's aggressive efforts to stimulate economic growth. In fact, many experts warn that more emphasis is being put on the Fed's actions than on actual market activity, which could lead to asset bubbles. At mid-year, the US economy is sputtering despite unprecedented and prolonged central bank intervention. By holding interest rates near zero for the past six years, yields on investments of all kinds have also been kept low. Savers have been punished and investors have been forced to take on more risk in their quest for yield.

TEN YEAR US TREASURY YIELD
IN PERCENTAGE



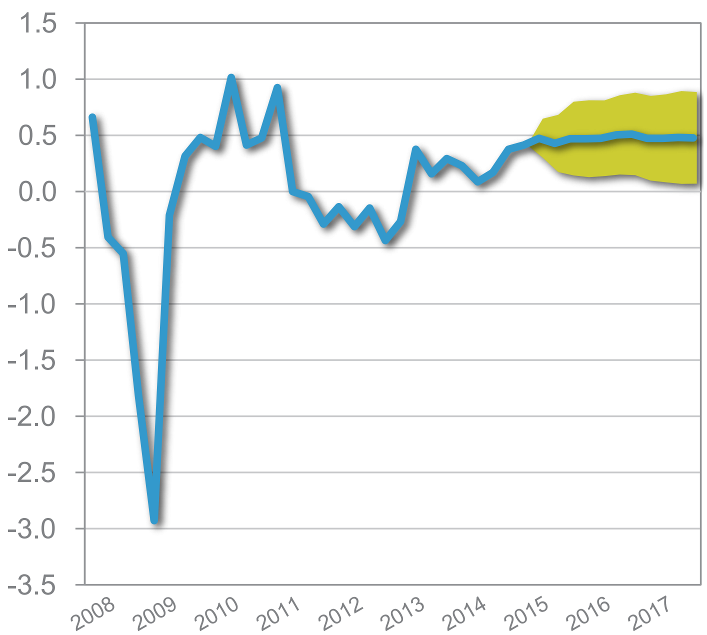
The equities markets have soared as a result, as it offers at least a chance for a reasonable return without giving up liquidity. However, the Dow has leveled off of late, moving just under or over the 18,000 mark, reacting daily to a variety of domestic and international issues that give investors the jitters, including the fact that gains in corporate profitability have flattened out.

Real estate borrowers have also benefited from Fed actions. Long term financing is still available at historically low rates. Low cost of capital contributed to cap rate compression in markets around the country. Positive leverage is still a possibility, even with cap rates as low as 4%. But, yields of 10-Year Treasuries have moved higher in recent months, up by approximately 40 basis points since April. When the Fed finally makes its move on interest rates, the yield on the 10-year Treasury, the benchmark for most real estate loan underwriters, will certainly move higher. That could cause a cap rate decompression to maintain that historic spread, and rent growth will have to remain strong to offset the negative impact on values. IRR's will take a hit, as savvy buyers will be assuming higher cap rates on exit.

GLOBAL ECONOMY

The global economy is another variable for our central bank to consider before bumping our interest rates. The European Central Bank announced an aggressive QE program just as we ended ours in the US. Many believe that nominal GDP growth throughout the Eurozone will delay the Fed's move on domestic interest rates, as the US is still a potent influence on the world economy. To avoid a deflationary spiral, several central banks in Europe have even moved core rates into negative territory.

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

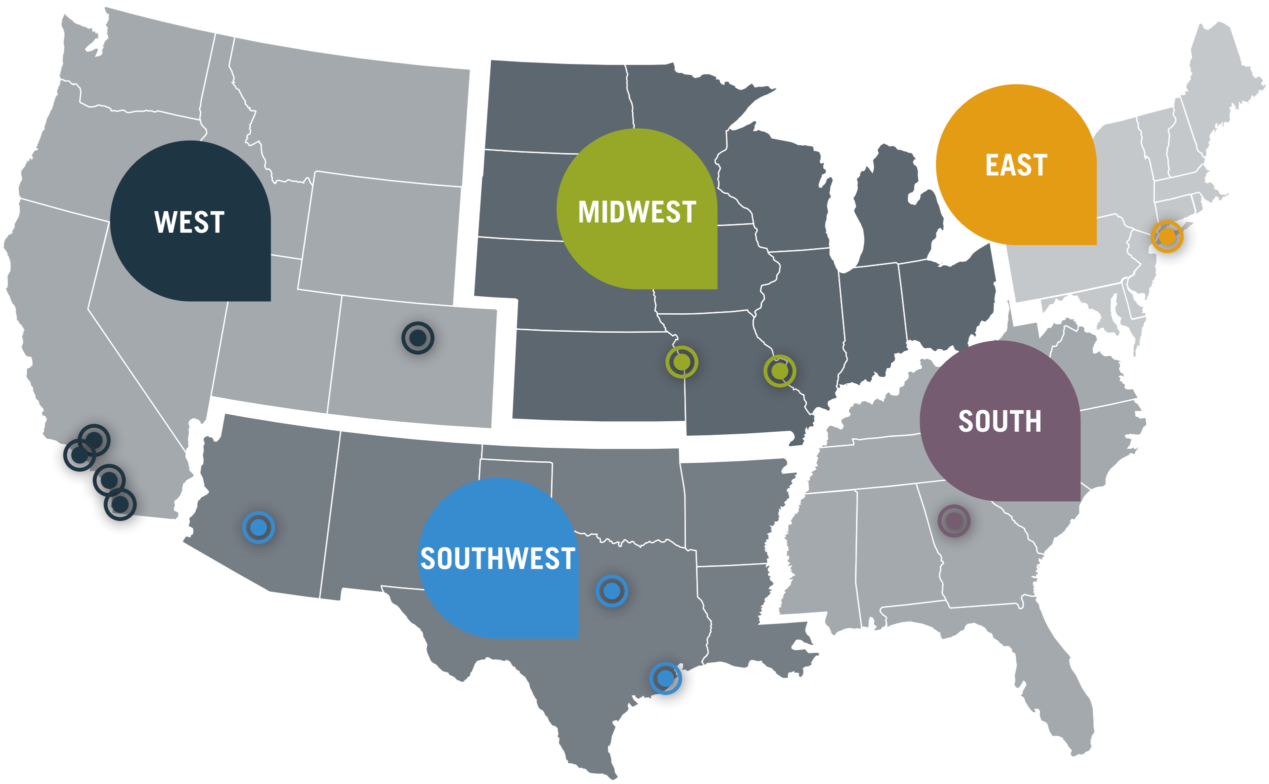


The recent threat of "Grexit", the potential of Greece leaving the euro, has been resolved, at least for the moment. By agreeing to a restructuring of Greece's long-term sovereign debt and an additional emergency bailout in return for further fiscal austerity measures, the Eurozone once again averted disaster, but may have compounded its long term troubles in the process. Germany wore the black hat in the negotiations, but looking back on the crisis makes one wonder whether the key players knew from the beginning how things would turn out. All that attention paid to 2% of the Eurozone's GDP does raise concerns over the ramifications of a bigger player facing the same conditions, which is a near certainty under the current system.

Changes in currency valuation are also impacting economic growth domestically. The US Dollar has moved to all-time highs against the Yen and the Euro. That means additional buying power when purchasing foreign goods and services with dollars, but it also has a negative impact on US companies with revenues generated from customers paying in other currencies, as the Fed recently pointed out. Share values of publicly traded companies with substantial revenues from overseas have been negatively impacted, as investors see the strong dollar as a threat to those businesses going forward.

Oil prices remain in the $50 per barrel range after plummeting from $107 per barrel in June of 2014. Industry experts are all over the board in terms of predicting an end to the decline. Here again, the good news is also bad news. Lower energy prices have put billions of dollars per month back in the pockets of US consumers, but job growth has been hurt in energy states, which have been producing a substantial portion of the higher-paying, full-time positions. Excess supply is to blame, and that is due to increased output in the US and slow worldwide economic growth. OPEC has refused to cut production in response, which many see as a strategic move to slow US production, which has indeed fallen dramatically in 2015.

Key Market Snapshots



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

ORANGE COUNTY
LA NORTH
WEST LA
SAN DIEGO
DENVER

PHOENIX
DALLAS / FORT WORTH
HOUSTON

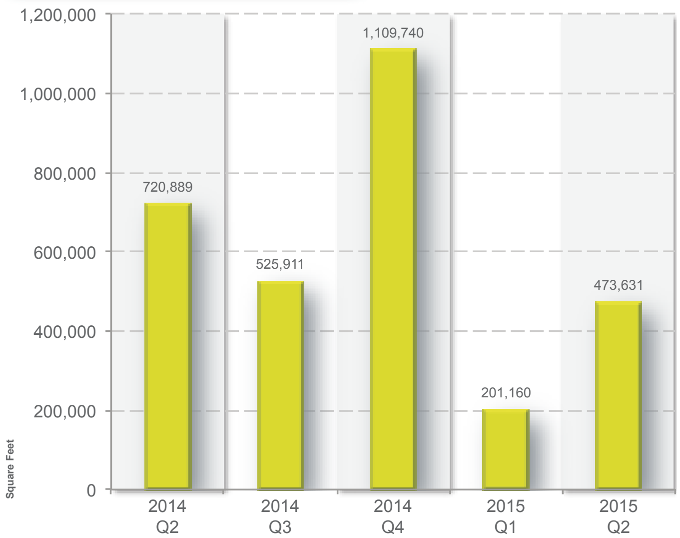
ST. LOUIS
KANSAS CITY

ATLANTA

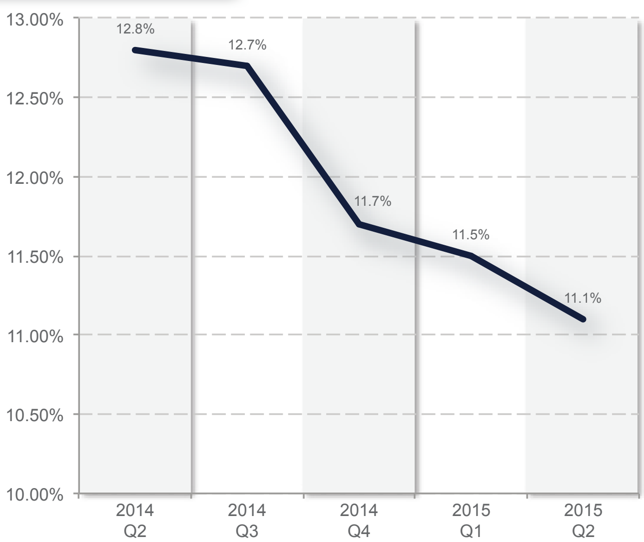
MANHATTAN

ORANGE COUNTY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Orange County's office market took another step forward in Q2, continuing on an established course of solid leasing activity, consistent positive net absorption and declining vacancy. At the end of Q2, 11.1% of the 110 million-square-foot office base* stood vacant, down 40 more basis points for the quarter. Net absorption was positive, totaling 473,631 square feet for the period. Consistency has been the key to the office market's return to relative health. Orange County does not see a lot of big deals like The Irvine Company's 380,000-square-foot lease to Pimco in 2014, but activity in smaller transactions has been steady for the last several years. That has vacancy moving down, but at a relatively slow pace.

Larger blocks of space are now running in shorter supply and there is increased activity from users in the 60,000 to 80,000-square-foot range. Development of new office product at today's land prices doesn't pencil well until rents reach the $42 per square foot threshold. The Irvine Company, with its low land basis, has the only significant office space under construction, a 472,000-square-foot, class A building in Spectrum Center, which is scheduled for completion in early 2016. Another notable project is Broadcom's new campus, which is currently underway in the Great Park area. However, it will not be offering any speculative space for lease.

11.1%	$26.40	473,631	110,296,897	647,387
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▲	▲	▲

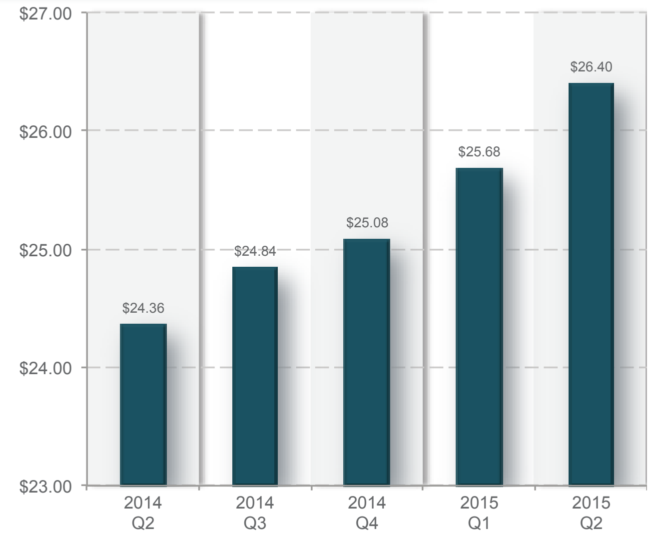
ORANGE COUNTY - TRENDING NOW (continued)

Leasing activity in Q2 came in at 2.6 million square feet, the eleventh straight quarter above the 2 million mark. Asking rental rates moved up another $.72 to finish the quarter at $26.40 per square foot. Class A rent growth is more robust, and, as a result, class B properties are beginning to see more activity from cost-conscious tenants. Creative space is becoming more popular and tenants will pay a premium for the operational efficiency and strong appeal it has with younger workers. This has local developers gobbling up well-located class B buildings for conversion to creative space. Central County class A properties, which were hit exceptionally hard during the recession are now seeing better activity and lower vacancy.

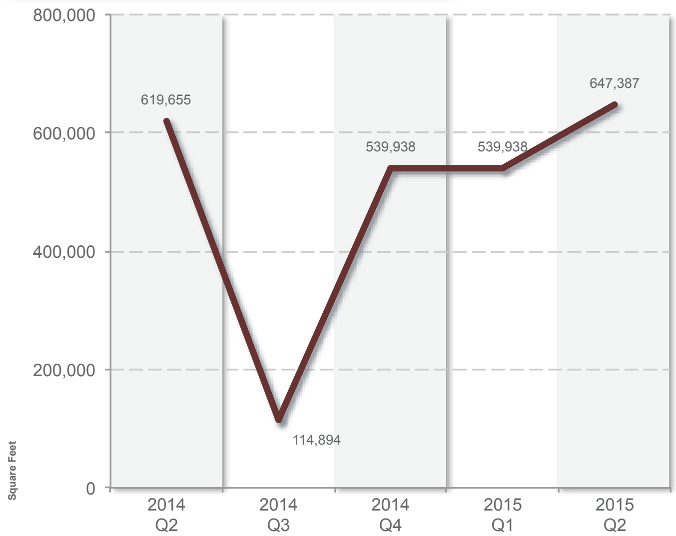
Orange County remains a favorite of office property investors, both institutional and private. Intense competition for quality assets has driven cap rates to new lows. While some see cap rate decompression as a natural result of higher capital costs that are expected soon, any trail-off in demand is still in the talking stage. Apparently, lack of supply trumps the threat of high interest rates, at least for the time being.

Job growth has been exceptionally strong in Orange County. The region's unemployment rate settled at 4.2% by the end of May. Strong job growth sectors include professional services, health care, education, technology and hospitality. Even the hard-hit financial services sector is making a comeback.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



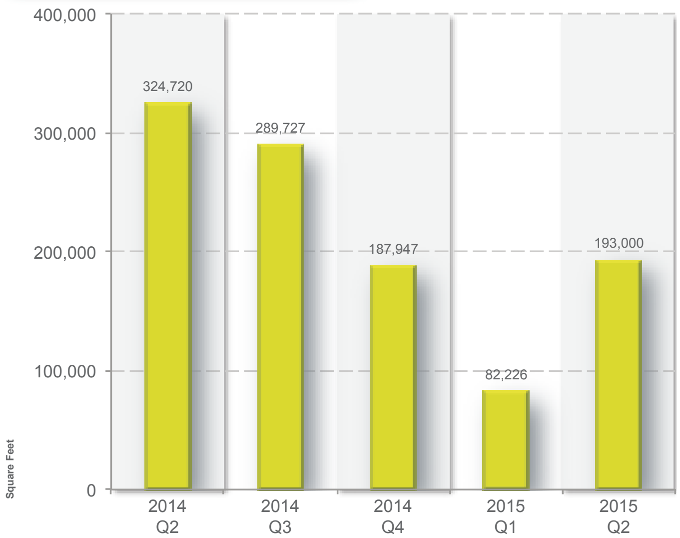
* buildings with a minimum of 30,000 square feet

A LOOK AHEAD.

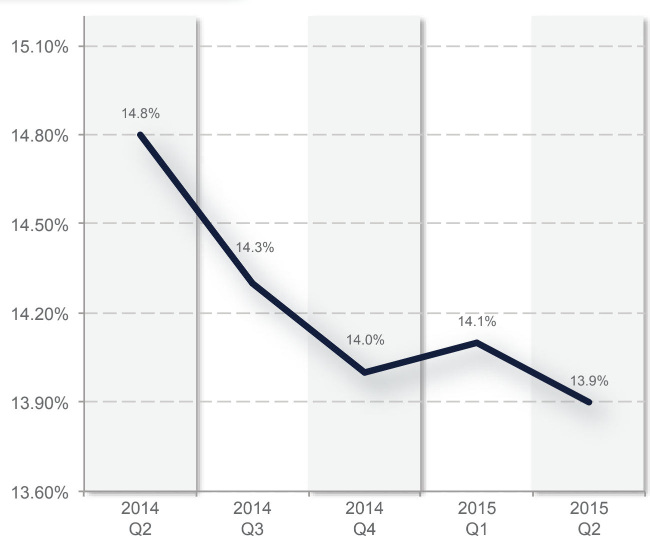
- Leasing activity will continue at its current pace for the balance of 2015
- Activity from larger tenants will continue to increase, tightening supplies for larger blocks of space
- Lease rates could move up 10% to 15% in the Greater Airport Area, and 3% to 5% in Central County
- Net absorption may moderate as more tenants will be forced to renew their leases due to declining supply of quality space
- More Class B buildings in South and Central County will be converted to creative space
- Intense demand to acquire office product will keep cap rates compressed
- Pricing for owner/user buildings will increase by double digits

LA NORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Los Angeles-North region includes the area north of the Ventura (101) Freeway, extending east to Glendale, west to the Conejo Valley and north to the Santa Clarita Valley. The largest concentration of office space runs along the 101 corridor from Glendale to Woodland Hills, including Burbank and Warner Center.

While the overall region has returned to good health, the office market has become bifurcated. Submarkets like Sherman Oaks, Encino, Studio City, Westlake Village, Calabasas and Burbank are seeing steeper rent hikes, especially for class A space, which is now approaching $36 per square foot, a third higher than the overall market. However, landlords in neighboring submarkets are either reducing rental rates or offering more concessions to retain and attract tenants. This trend mirrors a national trend, as growing businesses in the tech, media and information sectors are willing to pay more for quality space near amenities that appeal to the younger workforce. Also, the wide range in rental rates throughout the North LA region offers tenants willing to move submarkets a chance to save big on occupancy cost.

LA North's overall vacancy moved down 20 basis points in Q2, finishing the period at 13.9%. Year-over-year

13.9%	$27.36	193,000	54,597,400	537,900
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

LA NORTH - TRENDING NOW
(continued)

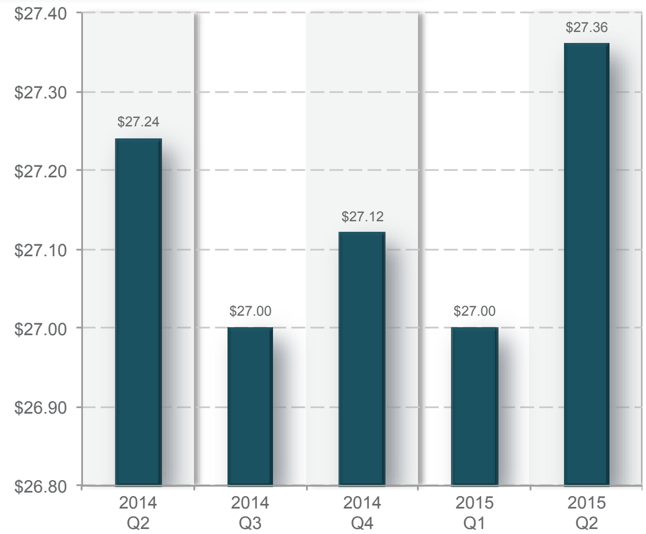
vacancy has fallen by 90 basis points. Average rental rates ended the quarter up $.36 to $27.36 per square foot across all building classes. Net absorption came in at a positive 193,000 square feet, up substantially from Q1's total of 82,226.

Lease rates for medical space continue to move up, and strong demand is coming from a broad spectrum of medically related uses including weight management, anti-aging therapies, home healthcare and autism treatment. The Los Angeles area has some of the highest medical rental rates in the nation, with the North LA region topping $36 per square foot. Landlords are enjoying faster lease-up times in addition to higher rates. The recent Supreme Court decision regarding the Affordable Care Act should help keep the medical space market on its roll, as uncertainty concerning the legislation had been running high.

Development is still hampered by persistently high vacancy in some submarkets. The resulting impact on rent growth, coupled with a short supply of land, makes new projects difficult to get out of the ground. However, redevelopment of existing product is picking up. The Masonic Temple in Glendale will soon be repurposed to office use and Lincoln Property Company will be converting three contiguous office buildings into an integrated media, entertainment and tech campus in Burbank.

The Title 24 energy conservation regulation continues to impact landlords and tenants, and along with materials and labor increases, is driving up improvement costs by as much as 40%.

AVERAGE SF RENTAL RATES



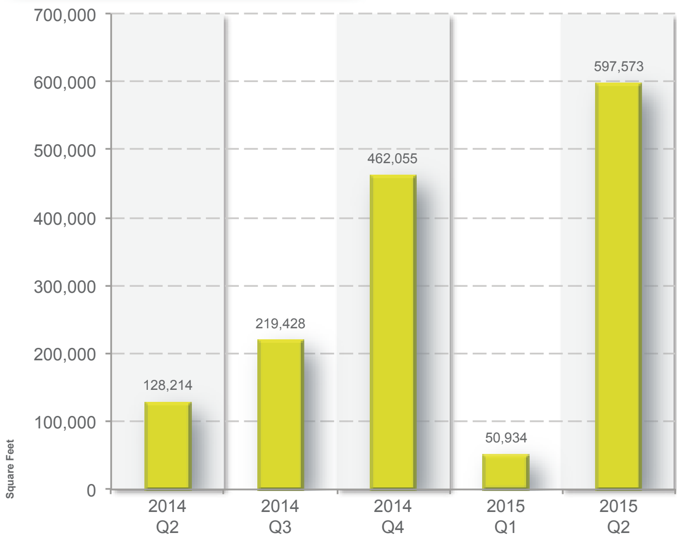
SF UNDER CONSTRUCTION

A LOOK AHEAD.

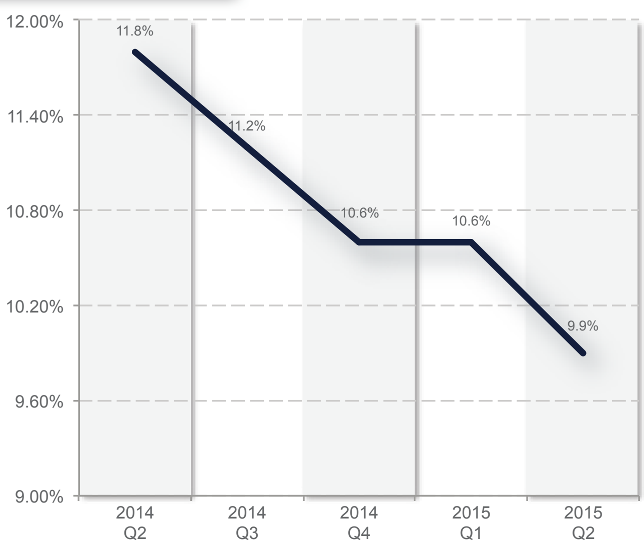
- Lease rates will continue to increase, but vary widely by submarket
- Investment activity will moderate due to low supply
- Sales prices will continue to spike throughout 2015
- Construction costs will move sharply higher
- Prime submarkets will see bulk of the leasing activity as some tenants will remain willing to pay a premium for the best space
- The disparity in lease rates will continue due to high vacancy in areas lacking quality product.

WEST LA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The West Los Angeles (WLA) office market includes Santa Monica to the North, West Hollywood to the East and Playa Vista to the south. The area is home to major universities including UCLA and Loyola Marymount, and also to LAX, one of the world's busiest passenger and cargo airports. West Los Angeles is known as Silicon Beach and is home to major private equity and investment firms. Major transportation arteries serving the market include Interstates 10 and 405 and the 90 Marina Freeway.

WLA has a base inventory of 74.8 million square feet, 45.5 million of which is Class A and 19.7 million is designated as Class B. However, WLA's shortage of quality space is causing rents to rise quickly, especially in Century City, Santa Monica, Playa Vista and Culver City. The lack of land for new construction has contributed to the run-up in rents, as the existing base just can't keep pace with rising demand. Average asking rental rates moved up again in Q2, finishing at $3.90 per square foot on a monthly basis. Class A asking rates now range from $5 to $7 for quality space. Class B asking rates reached as high $3.50 per square foot by the end of quarter, which is up to 30% more than just a year ago.

9.9%	$46.81	597,573	74,829,088	183,500
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

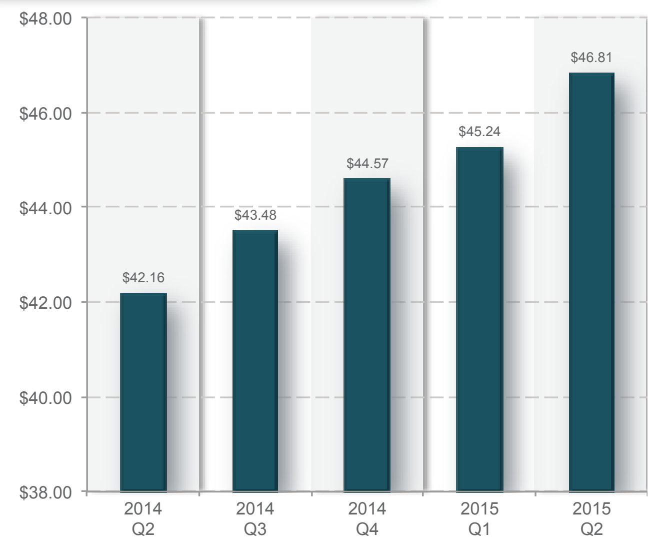
WEST LA - TRENDING NOW
(continued)

Net absorption is positive but is restricted by shrinking supplies. In Q1, just 50,934 square feet of net growth in occupied space was recorded, but Q2 added another 597,573 square feet to the mid-year total. Healthy absorption has landlords demanding stronger credit and reducing tenant concessions, which presents another challenge to tenants looking to grow in a tight market. Parking is another issue facing tenants today, especially tech sector users looking for higher ratios to accommodate the higher employed densities that go with more open floor plans. They will pay a premium for space with traditional parking ratios, as they still save on overall occupancy costs by needing less space.

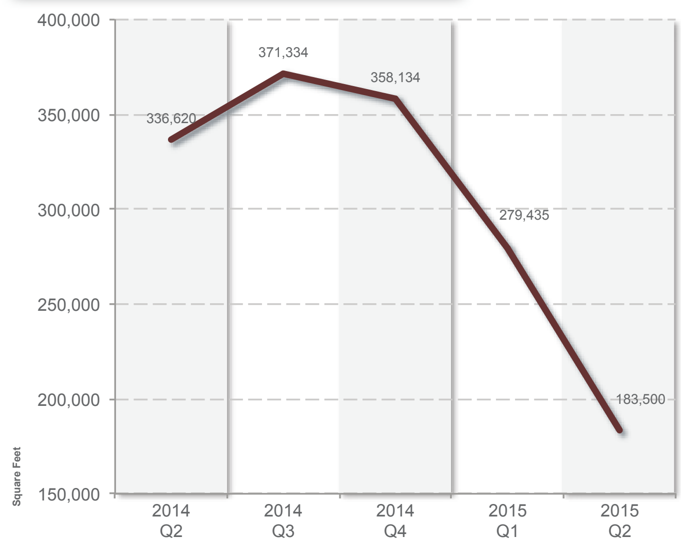
The overall vacancy rate for West LA for Q2 stood at 9.9%, a 70 basis point decline for the quarter. Class A is seeing the biggest rate of decline, but vacancy in Class C buildings fell to 3.5% by the end of Q2. Class B finished Q2 under 10%, down significantly year-over-year. Class A recorded a vacancy rate of 12.1% for quarter, but short supply of larger blocks of Class A space remain a problem for bigger tenants expanding in the West LA market.

Development activity will remain nominal, mainly due to a lack of available land. If it were available, well-located sites would range from $250 to $400 per square foot, making projects difficult to pencil even at today's rising rates. Developers are focused on existing assets that can be retrofit to accommodate creative space users and tech start-ups that are getting heavy funding from venture capital groups. Just 183,500 square feet was under construction as Q2 ended. So, spot shortages in all size range are likely to become more of a problem.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

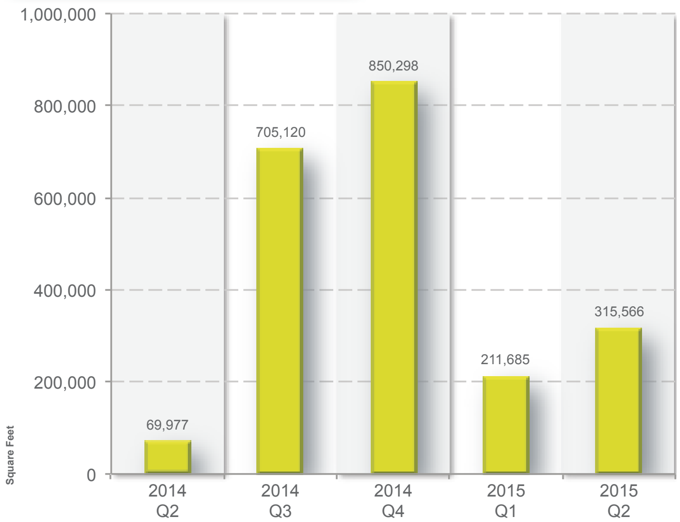


A LOOK AHEAD.

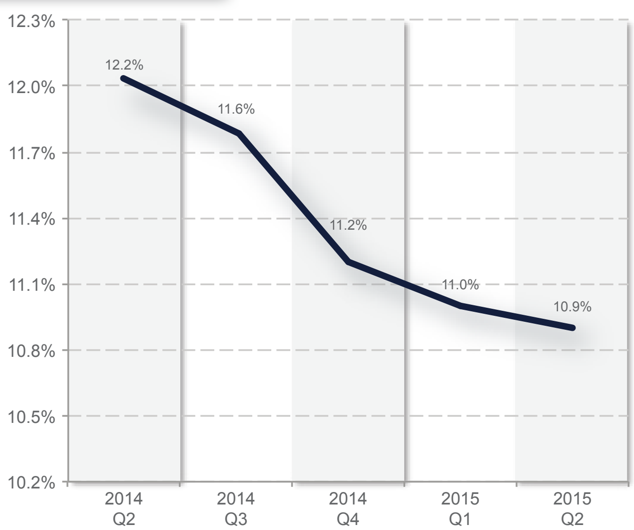
- Net absorption will remain steady, but lack of quality product could cause a slowdown in the net growth of occupied space
- Vacancy is going to move lower for the rest of the year, as low as 3% and as high as 10% depending on submarket
- Double-digit rent growth in 2015 due to tight supply
- Sales prices will jump by 20% or more by year-end due to intense demand and SBA financing
- Construction will be limited to retrofit of existing product, especially for creative space
- Tech companies will continue to fuel demand for creative space

SAN DIEGO

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

San Diego boasts a strong balance of business sectors, most notable of which is the defense industry, which employs over 100,000 active duty and 30,000 civilian workers and generates over $20 billion in annual economic activity. The Life Sciences industry employs over 42,000 physicians and scientists and aerospace companies, especially those involved in the development and manufacture of drones, are expected to grow by up to 30% over the next six years. Cross-border commerce has once again become an economic driver for the area. Unemployment in San Diego County fell again in May to 4.6% and remains well under the statewide rate of 6.0%.

The steady and broad-based economic recovery has fueled strong activity in the region's office market. The vacancy rate for all building classes fell to 10.9%, down from 11.0% last quarter. Year-over-year vacancy has declined by 130 basis points, and even submarkets hardest hit by the last recession continue to improve. Class A vacancy is lowest at 9.8%, while class B finished Q2 down 30 basis points to 13.4%.

Net absorption of 211,685 square feet in Q1 was followed up by another net gain of 315,566 square feet in Q2. Class A accounted for 49,532 square feet of that

10.9%	$29.23	315,566	113,189,617	1,071,020
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

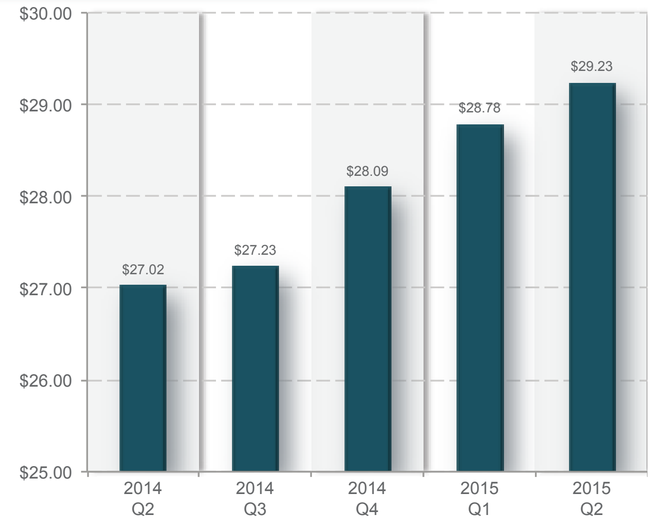
SAN DIEGO - TRENDING NOW (continued)

number, while Class B contributed a total of 166,786 square feet. Individual deals contributing to Q2 net absorption included a 77,147-square-foot lease to the Office of the Attorney General, a 75,537-square-foot lease to Lytx and the 72,921-square-foot lease to Ardea Biosciences.

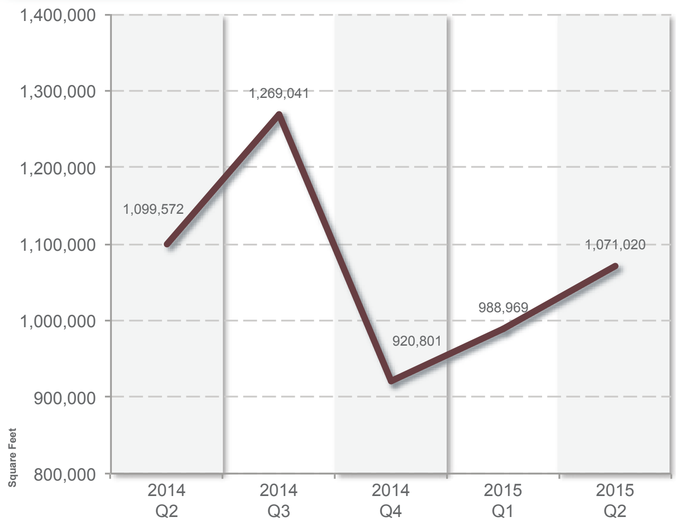
Average asking lease rates moved higher in Q2, up across all building classes to $29.23 per square foot, a 1.6% increase in just three months. Class A rents rose substantially for the quarter, up $.64 to $37.16. In UTC where the Irvine Company is constructing a 306,000-square-foot office tower, the average asking lease rate has topped $45 per square foot. As a result of such strong rent growth in class A, the flight to quality is now moving to the better class B buildings, which is encouraging landlords to make needed repairs and upgrades to attract higher rents. Class B asking rates stood at $27.52 up $.44 for the quarter and 7% year-over-year. Creative space activity is also giving rental rates a boost. Owners of older office and flex buildings are beginning to retrofit their buildings to accommodate tech and service sector users interested in space that helps them retain the younger workers with the skillsets to make them more competitive.

Sale activity remains strong and cap rates for investment properties are now under 6% and remain compressed for both class A and B properties. San Diego is a prime target of institutional buyers, as they like the location, demographics, diverse economy and prospects for rent growth. A good example is Newport National Corporation's $113 million, seven-building portfolio sale totaling 498,000 square feet to Brookwood Financial Partners.

AVERAGE SF RENTAL RATES



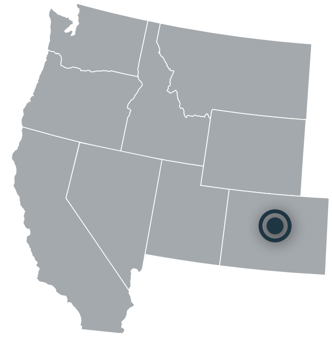
SF UNDER CONSTRUCTION



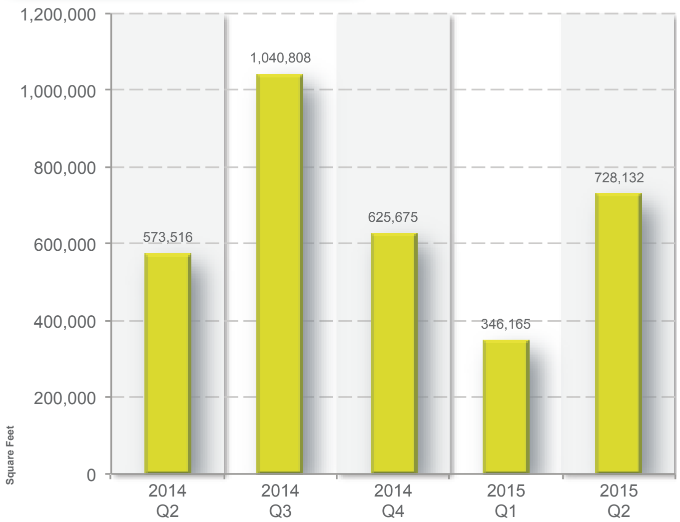
A LOOK AHEAD.

- Leasing activity should remain at current levels for the rest of the year.
- Vacancy will continue to move lower, as very little inventory is being added to the base
- Development will be mainly confined to build-to-suits and office/R&D retrofitting
- Tenants running short of choices will negotiate more aggressively, which will abbreviate the leasing process
- Rent growth for class A will moderate, but class B and C could see up to a 10% rise in rates for the year.
- Sales prices for owner/user buildings will continue to move up, even with a modest increase in interest rates
- Creative space will be more of a factor going forward, but there is a chance of temporary excesses in supply due to the current retrofit trend

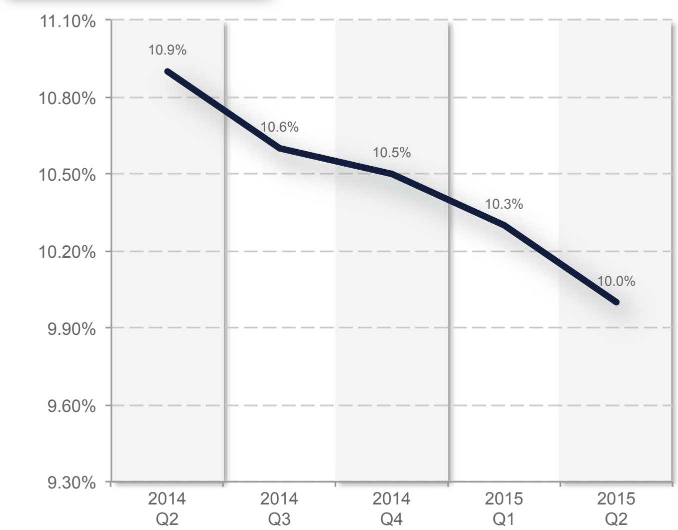
DENVER



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Though the workforce grew by double the national rate last year, the impact of fossil fuel pricing is now a major concern. High-profile layoffs have been announced and the timing of new exploration projects is uncertain at best. Until pricing returns to levels that justify hydraulic fracturing, the impact on the office market will be significant. Developers, having learned from previous energy pullbacks, are putting projects on hold until the fog of uncertainty begins to lift. However, a large portion of Denver's expanding business base is comprised of smaller tenants who like the region because they can attract a younger, highly educated workforce that enjoys Denver's urban lifestyle and access to outdoor recreation.

Net absorption hit a positive 728,132 square feet in Q2, as compared to last quarter's 346,165 square feet and 2014's Q2 tally of 573,516 square feet. Class A added 127,535 square feet of the net for Q2, while Class B grew by 597,560 square feet to lead the way. With more sublease space becoming available, current concerns over a shortage of quality space may ease, offering tenants in other industries new opportunities to secure quality space. Creative space users needing under 10,000 square feet will continue to contribute to net absorption, as they tend to be in tech

10.0%	$23.81	728,132	190,482,183	2,994,737
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

DENVER - TRENDING NOW (continued)

and business services, industries nominally affected by the energy sector.

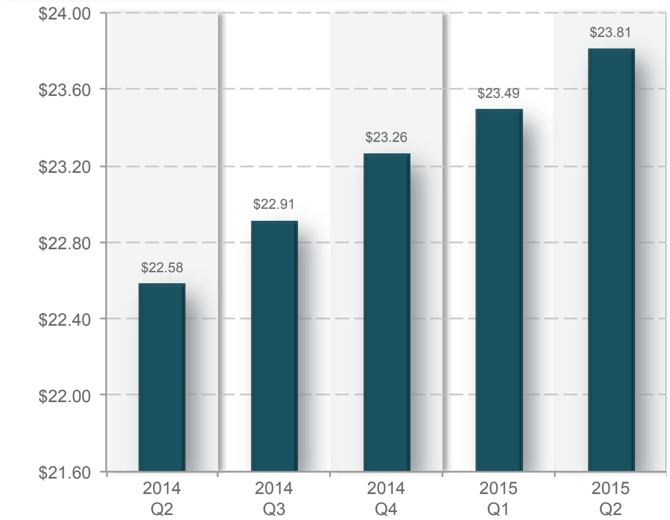
Average asking rental rates for all building classes moved up $.32 in Q2, finishing at $23.81. That contributed to a year-over-year increase of $1.24. Class B rents rose to $20.72, up $.25 for the quarter and $.89 year-over-year. It should be noted that net absorption reflects decisions made several quarters ago, and thus do not reflect the full impact of the energy pullback. A more accurate assessment of those effects will be more apparent in the last half of 2015 and early 2016.

Delivery of new space continues in LoDo, Cherry Creek and the Southeast suburbs, but until these projects are leased up and the disruption in energy production is sorted out, construction activity will lighten. In Q2, 318,124 square feet was delivered and another 2,994,737 square feet was underway. Denver's stock of office space now stands at 190.5 million square feet.

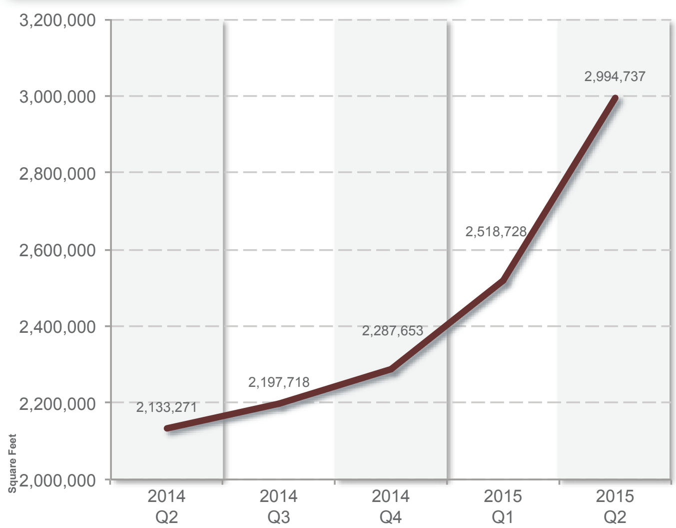
The vacancy rate finished Q2 at 10.0%, down 90 basis points year-over-year. Class B has seen a larger drop in that time frame, falling 120 basis points as compared to a Class A decline of 60 basis points.

Investors still like the Denver market, but institutional level acquisition activity has been adversely affected by the energy slowdown. Sales activity for the year is below last year's levels. However, demand is still running well ahead of supply as investors still see Denver as a good long-term investment. They know that this is not the first time we have seen a major shift in energy prices.

AVERAGE SF RENTAL RATES



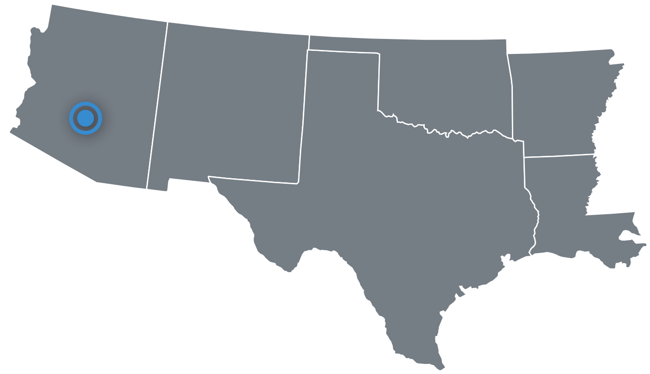
SF UNDER CONSTRUCTION



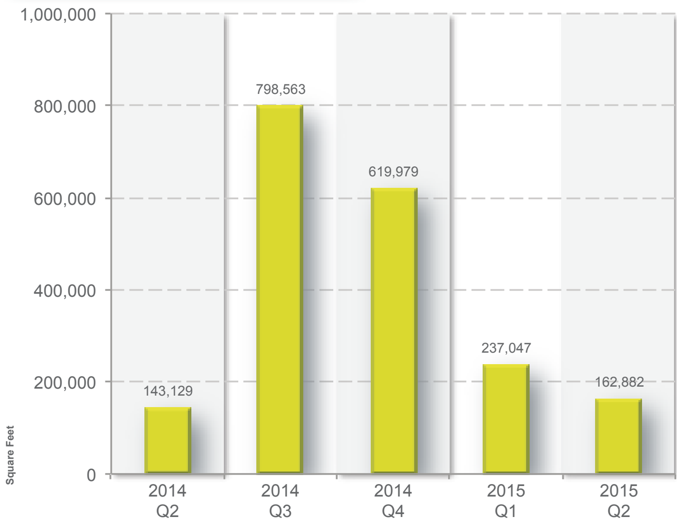
A LOOK AHEAD.

- Leasing activity will moderate and rent growth will slow
- Net absorption will be positive, but may moderate until energy prices return to equilibium
- Large blocks of new sublease inventory will put upward pressure on vacancy
- Rates for prime space will continue to rise, but rent growth overall will slow
- Job creation will continue in the tech and business services sectors
- Creative office users will account for a growing percentage of office absorption
- Some new development will take place in Cherry Creek and the Denver Tech Center

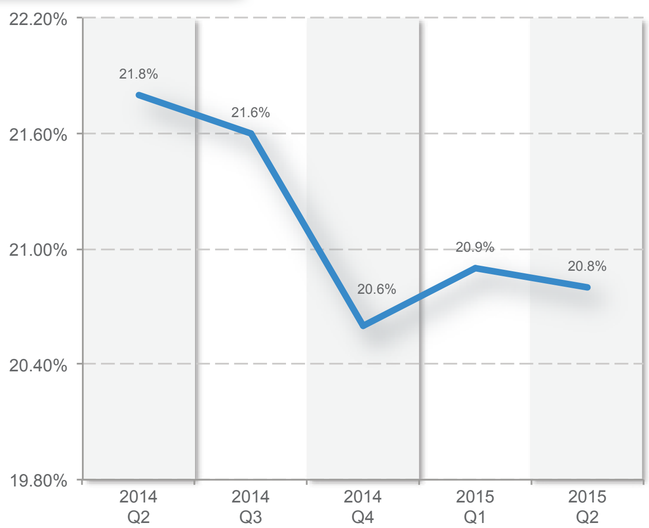
PHOENIX



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Phoenix office market stayed on its positive track in Q2. Net absorption has been in positive territory for five years, and Q2 kept that streak going by adding 162,882 square feet, bringing the year-to-date gain to 452,565 square feet. Tempe, Chandler and Deer Valley Airport submarkets have fared best, but tenants throughout the Phoenix region are trending toward using less space as they shift to more collaborative workplace designs featuring conversation centers and project hubs over traditional cubicles and private offices. This is expected to create less need for space in the future.

Vacancy declined by 20 basis points in Q2, bringing the overall rate down to 20.8%. New deliveries are keeping vacancy above the 20% threshold. Nearly 1.3 million square feet was delivered in Q2 and another 4.6 million square feet was still under construction as the quarter ended. Tempe and Chandler accounted for 3.9 million of that total.

Despite high vacancy, developers and lenders are still bullish on new projects, as the change in space utilization and the functional obsolescence that is apparent in older properties, bodes well for new product. Tenants are willing to pay a premium for the amenities and efficiencies they get with new space, along with the

20.8%	$22.05	162,882	84,164,014	4,590,490
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▼	▲	▲

PHOENIX - TRENDING NOW (continued)

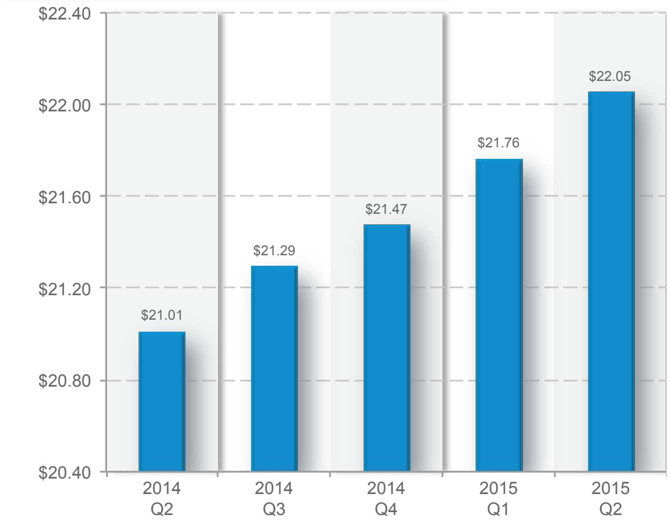
boost they get in terms of attracting and retaining a younger workforce that wants to drive less and walk more. This trend is beginning to drive the repositioning of well-located class B assets, especially in the Midtown Phoenix market, which has captured over 400,000 square feet of new tenants in remodeled properties.

Lower supply of larger blocks of space has increased build-to-suit activity and added additional momentum to speculative, ground-up development. Banner Health, and the Arizona Department of Child Safety combined for nearly 310,000 square feet of the remaining contiguous space available.

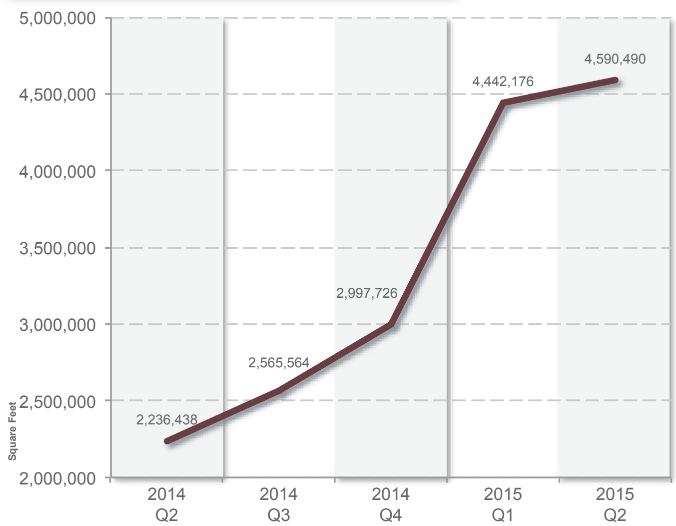
The average asking rental rate is still under its pre-recession peak, but did move up by 1.3% in Q2 to $22.05. Year-over-year, the rate has risen by 4.95%, which gives landlords of aging assets motivation to retrofit their properties to be more competitive. Free rent and other concessions, while on the decline, still figure into the equation for mid-size and large transactions throughout the Phoenix area, especially for larger transactions.

Sales activity was strong in Q2. The top five sale transactions for the quarter totaled over 1.4 million square feet for total consideration of $286 million. The largest transaction was Parallel Capital/Angelo Gordon's acquisition of a 410,000-square-foot class A project at 1 N. Central Ave for $93.75 million. The seller was Mitsubishi Estate New York. The biggest class B sale was the 213,261-square-foot acquisition by Griffin Capital Essential REIT of 3202 W. Behrend Drive for $33.5 million, which was part of an even larger sale of a mixed-use property.

AVERAGE SF RENTAL RATES



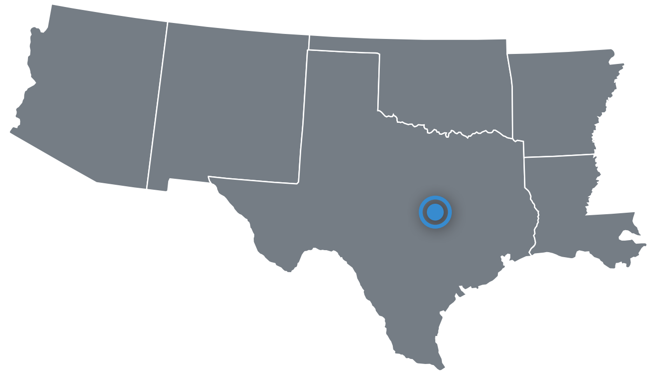
SF UNDER CONSTRUCTION



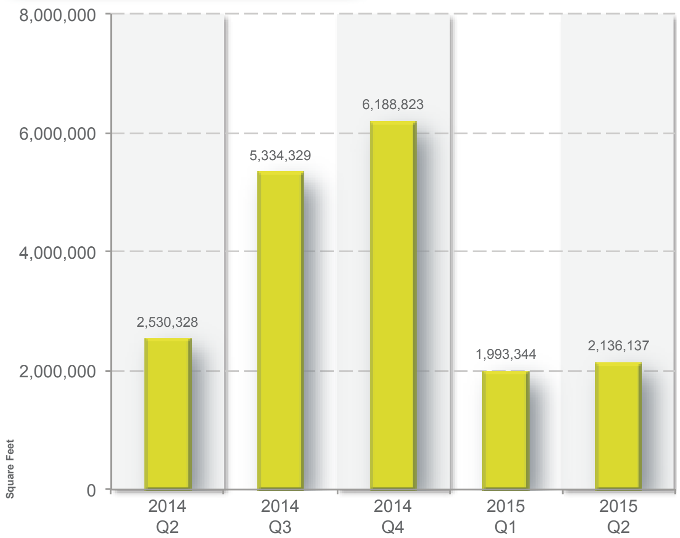
A LOOK AHEAD.

- The Arizona economy will continue to grow for the rest of 2015, but at a moderate pace
- Net absorption will remain positive, but spotty supply shortages will moderate demand
- Vacancy will decline slightly for the balance of the year, but remain above the 20% threshold
- Average asking lease rates will move up modestly for the next several quarters
- Construction will remain at current pace for the near term
- Sales price increases will accelerate for high quality assets
- Urban infill mixed-use project development will become increasingly popular

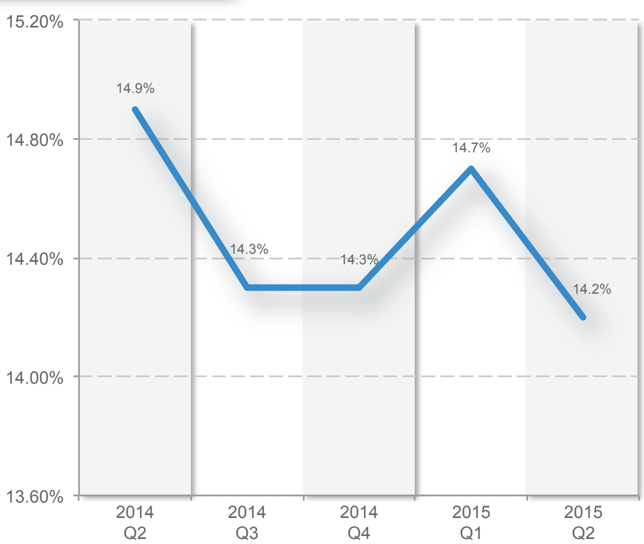
DALLAS / FORT WORTH



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Dallas/Fort Worth (DFW) economy continues to outperform other major markets. Leading economic indicators portend more good times ahead, but eyes have turned to the potential impact of the dramatic drop in energy prices experienced since June of 2014. Neighboring cities like Houston are definitely feeling the pinch that is yet to hit the DFW market. DFW's unemployment rate has dropped 120 basis points in the last twelve months, and now sits a very low 3.8%. The region still enjoys strong population growth, as it offers a high quality of life at a lower price point than other big metro areas on both coasts.

Moves by big companies have been in the news for several years, and that trend continues. State Farm Insurance just moved into 1,555,199 square feet of its new campus at CityLine. The Texas state government is relentless its pursuit of major employers, attracting them with tax incentives, room to grow and a good and an attractive life style for current and potential employees. The state of Texas has added more jobs since the last recession than any other state in the US.

Office vacancy moved down 50 basis points to 14.2% during Q1 of 2015, while adding 807,612 square feet to the base inventory. The construction boom continues,

14.2%	\$22.15	2,136,137	345,951,175	7,375,728
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

DALLAS / FORT WORTH - TRENDING NOW (continued)

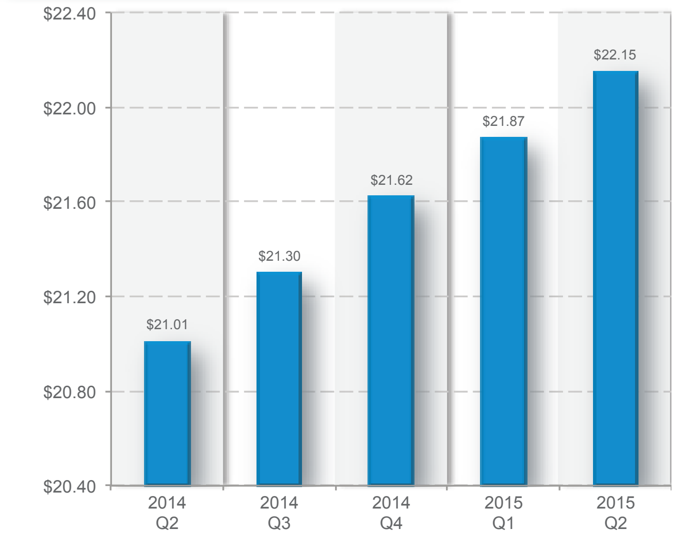
as nearly 7.4 million square feet of office space was underway by the end of Q2. So, the DFW region is on track to exceed the 6,051,000 square feet of new space that was delivered in 2014. With the availability of additional land that trend should continue. Add in the potential for redevelopment and repositioning of existing assets, and it becomes clear that the region can handle the growth needs of businesses in all asset classes, which figures heavily in the strategic growth plans for large corporations.

Net absorption came in at a positive 2,136,000 square feet for Q2, nearly equaling Q1's net gain of 2.178 million square feet. Almost all of Q1 absorption occurred in suburban submarkets. Overall asking rental rates continue to move up, posting a year-over-year gain of $1.14, finishing the quarter at an overall average rate of $22.15. Class A leads the way at an average of $25.79, with class B posting a rate of $19.33 for Q2.

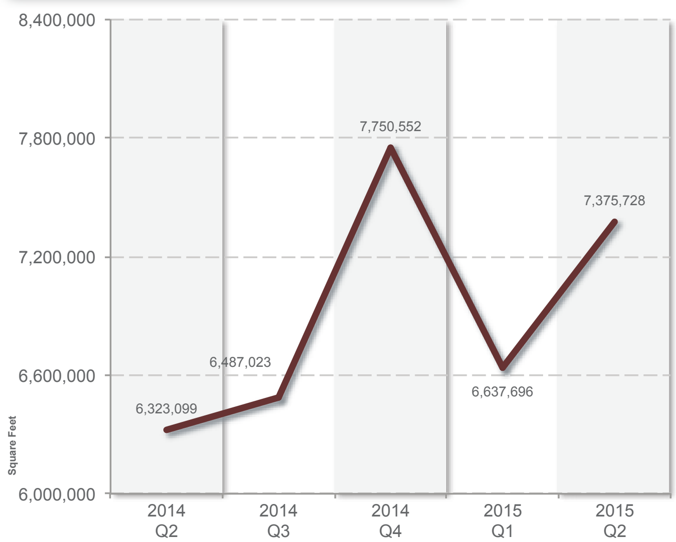
RealPage's 332,653-square-foot lease led the way in terms of leasing activity in Q2, trumping Santander Consumer's lease of 200,611 square feet in the Richardson/Plano submarket. Activity is strong across the region, but the NE Dallas, Uptown/Turtle Creek, West Plano/Frisco and downtown Dallas areas are seeing the most activity.

Investors are still bullish on the Dallas/Fort Worth area, but that is a nationwide phenomenon. However, yields are still higher in DFW than they are in coastal markets like San Francisco, Los Angeles and Seattle. While there is some concern about the long term impact of the collapse in energy prices, Dallas is not as exposed to that risk as other markets in Texas.

AVERAGE SF RENTAL RATES



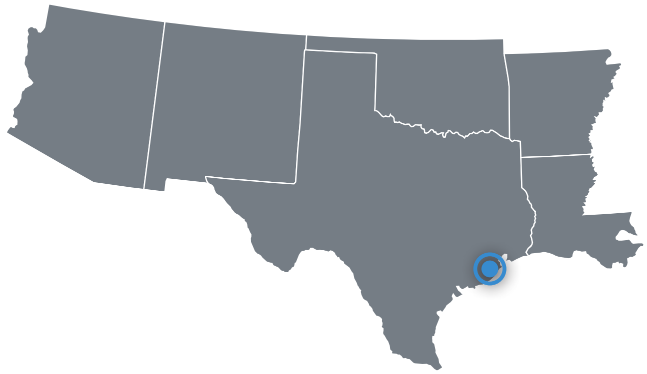
SF UNDER CONSTRUCTION



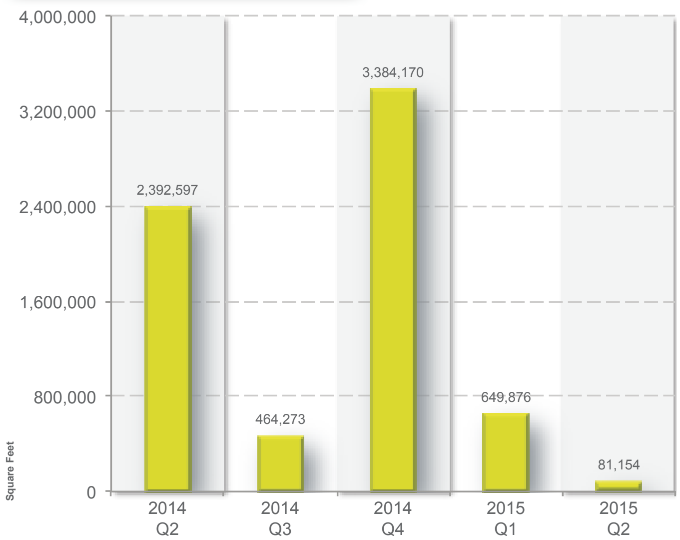
A LOOK AHEAD.

- Tenants will continue to face limited options
- Net absorption should remain at current levels into 2016
- Vacancy will decline into next year, but will fluctuate based on new deliveries
- Owner/user and investor pricing will keep moving up due short supply
- Major tenants will keep driving build-to-suit activity
- Average asking lease rates will move up another 3% over the next 12 months

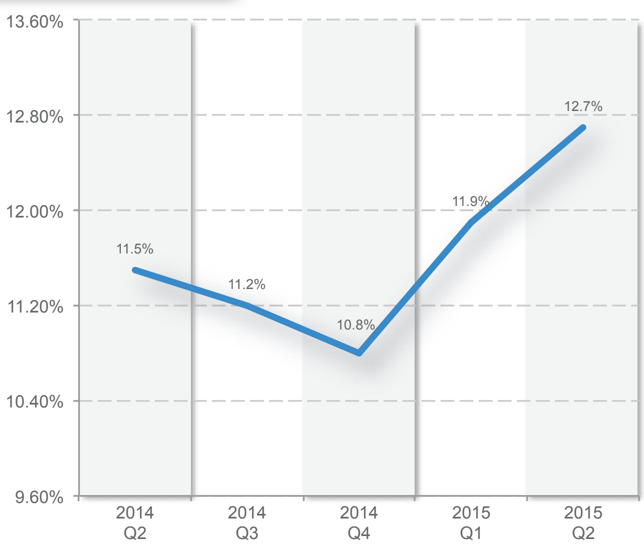
HOUSTON



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Until the abrupt turnaround in energy prices that began in June 2014, the Houston office market had been expanding rapidly. However, things have changed and the market is feeling the effects of a pullback in a sector that supports half of Houston's economy. World oversupply of oil caused by a variety of factors has energy companies curbing expansion plans, paring budgets for exploration and laying off workers in high-paying jobs. With no end to the crisis in sight, many expect the fallout to intensify and the office market will surely be impacted.

Current commitments for build-to-suit projects are moving ahead, but projects without heavy prelease commitments are on hold. In Q2, over 12.4 million square feet remained under construction, most of it preleased. Fortunately, most of the 7 million square feet of inventory delivered this year was pre-committed.

Other sectors still remain relatively healthy. Jobs in healthcare, hospitality and professional services are still being created, and the unemployment rate stood at just 4.2% by the end of May. Submarkets not dominated by energy-related companies are faring better, but there is no denying the impact of the loss of thousands of high-paying energy sector jobs that have been the primary

12.7%	$27.90	81,154	290,351,116	12,436,139
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION
▲	▲	▼	▲	▼

HOUSTON - TRENDING NOW (continued)

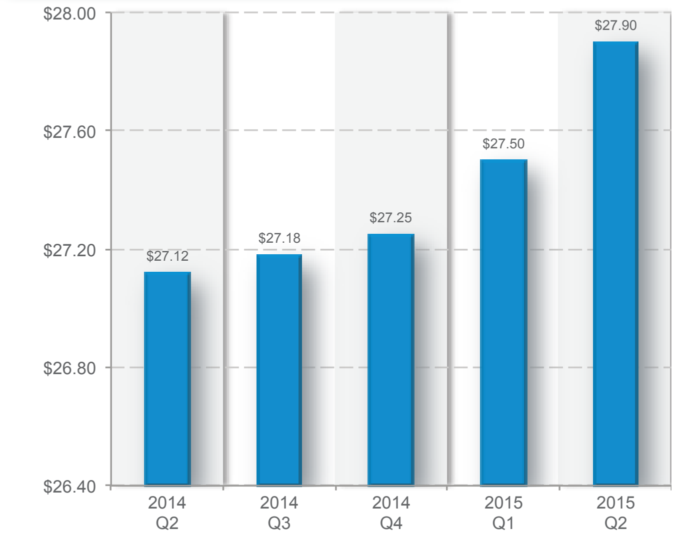
driver of new employment.

Perhaps the most significant new trend is the rapid increase in sublease space added in the first half 2015. In Q2, another 842,000 square feet of sublease space hit the market, bringing the total to 2.87 million square feet. This is great news for tenants looking to reduce costs, but much of this space is in large blocks currently occupied by energy companies looking to right-size or consolidate operations. Landlords are facing potent competition from tenants looking to shed excess capacity, which will force them to lower rates and increase concessions. However, asking rental rates across all building classes still moved up in Q2, reaching $27.90, a rise of 1.5% over Q1. Declines are likely as more space is expected to hit the market, despite the impending slowdown in new construction. It's just too early to tell what the long term effects of the energy downturn will be.

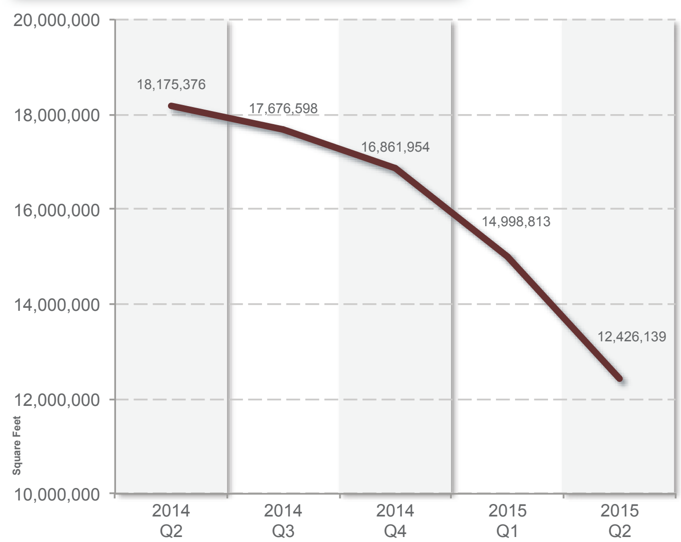
Positive net absorption for Q2 totaled just 81,154 square feet, after a robust 649,876 square foot gain in Q1. Class B took the hit in Q2, declining by over 687,000 square feet. But, a net gain in class A of 747,000 square feet salvaged the modest quarterly gain. The overall vacancy factor moved up to 12.7%, a 130 basis points rise over Q1.

On a positive note, the upcoming completion of the Panama Canal project is attracting capital to expansion projects along the Texas coast and Port of Houston. The region's low cost of living and diverse culture continue to make it one of the most highly desired cities in the US to live. It is expected that Houston will soon surpass Chicago as the nation's third largest city.

AVERAGE SF RENTAL RATES



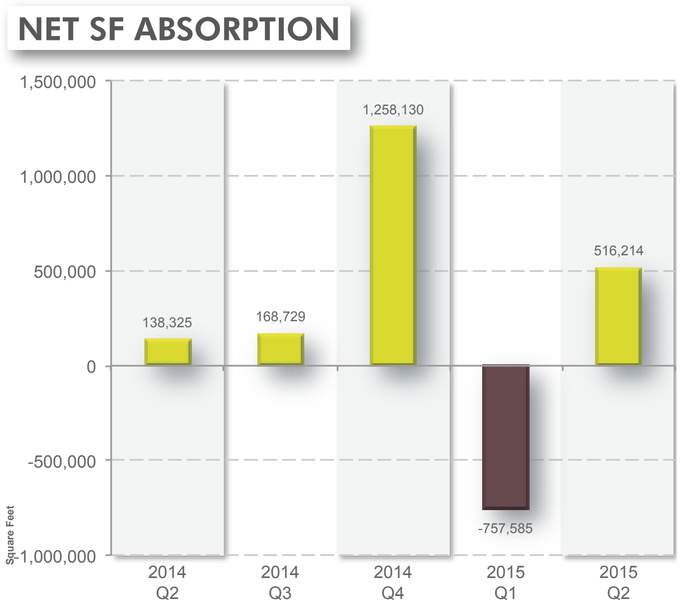
SF UNDER CONSTRUCTION

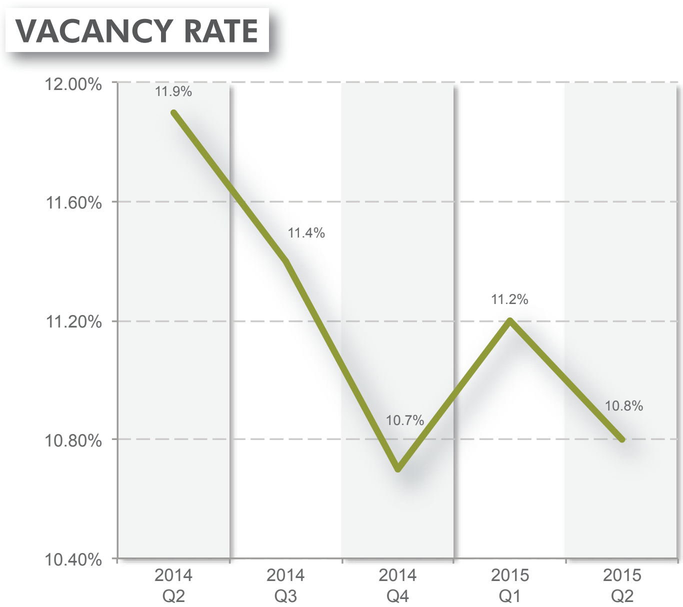


A LOOK AHEAD.

- Net absorption will decline, but remain in positive territory for the balance of the year
- Vacancy will move back up to as high as 15% over the next 12 months
- The addition of large blocks of sublease space will continue
- Rental rates will decrease by another 15%
- Speculative development will shut down until energy prices stabilize at higher levels
- Landlords competing against sublease space will increase concessions
- Sale of office buildings will slow
- Other employment sectors will keep job growth for the region healthy

ST. LOUIS





TRENDING NOW

The St. Louis economy continues to improve. Boeing's expansion in the region has given the office market a big boost, as the aerospace giant announced another 47,000-square-foot expansion after taking occupancy of 61,172 square feet during Q2. 2014 was a big year for Boeing, having secured numerous contracts that signal the need for additional space on an ongoing basis. The increase in jobs generated by the General Motors assembly plant has provided another boost to the economy that is adding momentum to the commercial real estate market, including office space. The unemployment rate in St. Louis fell to 5.5% in May, which bodes well for improved job growth.

The improving employment outlook is showing up in the region's office net absorption numbers. In Q2, over 1,280,000 square feet of positive absorption was recorded. This modest gain followed two quarters of wild swings in both directions as Q1's 700,000-square-foot loss offset a Q4 2014 gain of over 1.1 million square feet. With just a 130 million square feet of inventory, a few large transactions in a given time period can be statistically significant. However, the trend is for absorption to remain positive and that could lead to additional development in the near term. In Q2, 175,380 square feet of space was under construction,

10.8%	$17.96	516,214	130,566,904	175,380
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

ST. LOUIS - TRENDING NOW (continued)

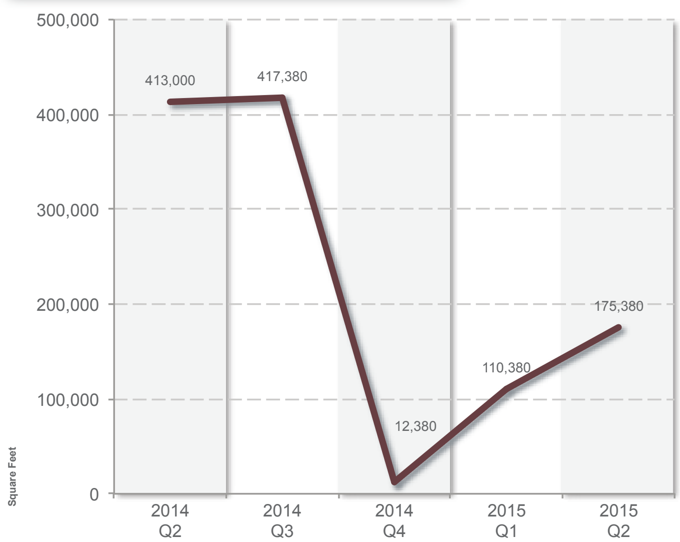
but not a single building was delivered in the same period.

As a result, vacancy moved down again in Q2, shedding 40 basis points to end the quarter at 10.8%. Class A product posted a 9.3% rate, a 20 point drop for the quarter, and Class B vacancy fell by 50 basis points to 12.8%. Those declines come despite 461,000 square feet of newly vacated space in just three big move-outs for the quarter. Net gains in occupied space and declining vacancy have led to modest gains in average asking rental rates. In Q2, the overall rate increased by .5% to $17.96. The class A asking rate hit $20.79 and class B came in at $16.99. Suburban office rates lead the CBD by $2.30 at $18.42.

The recent sale by Duke Realty Corporation of 61 suburban office buildings for over $1.2 billion is beginning to have its effect on the office market. St. Louis is one of four areas impacted by the sale, and the new ownership is busy restructuring management agreements and preparing individual assets to be sold out of the portfolio, which is impacting the terms of renewals and new leases. Interest from institutional investors is strong in the region, as it is in other central US markets. While cap rates remain compressed nationwide, the center of the country is attracting more investor attention, as yields on both coasts have fallen below 5% for trophy assets.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

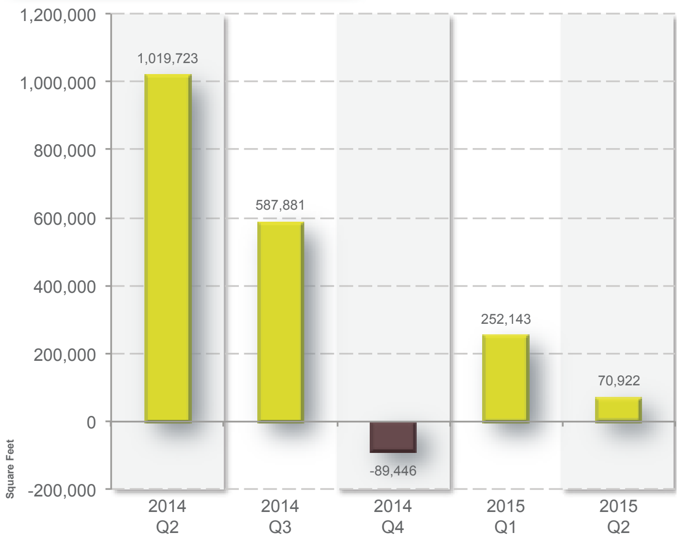


A LOOK AHEAD.

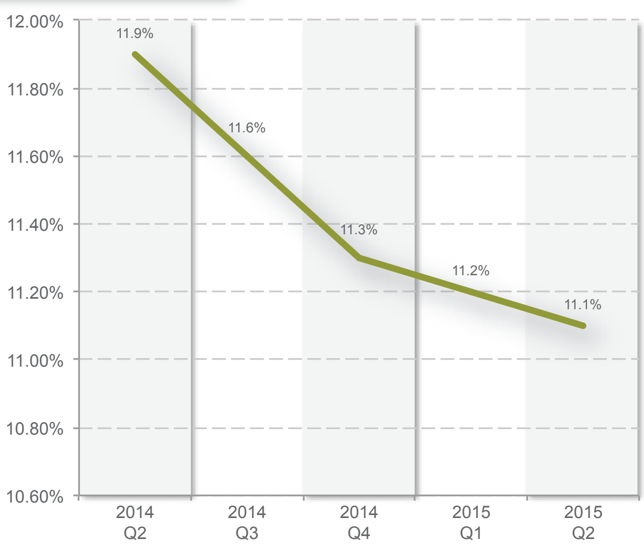
- Leasing activity will remain strong in light of the current stable economic environment
- Absorption will remain positive with big swings quarter-to-quarter as large tenants make moves
- Asking rates for class A space will make significant gains due to declining vacancy
- Construction will be mainly limited to build-to-suit transactions
- Overall vacancy will decline, but be held back by the Olive/270 and Westpark submarkets

KANSAS CITY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Kansas City's office market is poised to continue its return to economic prosperity and long term growth. The area is attracting large companies from other markets. In particular, the region's lower cost for real estate and quality of its employment base are combining to draw the attention of the legal profession. San Francisco-based labor and employment firm Littler Mendelson, PC signed a 55,000-square-foot lease in downtown Kansas City for 275 of its administrative employees. In 2014, law firm Sedgwick LLP relocated 100 employees to the Kansas City market as part of the same strategy. It is not just the legal profession that is choosing the area for expansion. Locally based Cerner Corporation, a global leader in healthcare information technology, recently broke ground on a $4.45 billion campus calling for 4.7 million square feet of space in 16 buildings to be occupied by the firm, adding another 16,000 employees in the process.

Net absorption is in positive territory, where it is expected to stay. Q2 added another 70,992 square feet on top of Q1's gain of 252,000 square feet. Recent move-ins include General Services Associates 137,797-square-foot space and Sungevity's downtown move into 72,282 square feet. Major lease signings for the quarter were led by the State

11.1%	$17.56	70,922	115,128,156	404,024
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

KANSAS CITY - TRENDING NOW (continued)

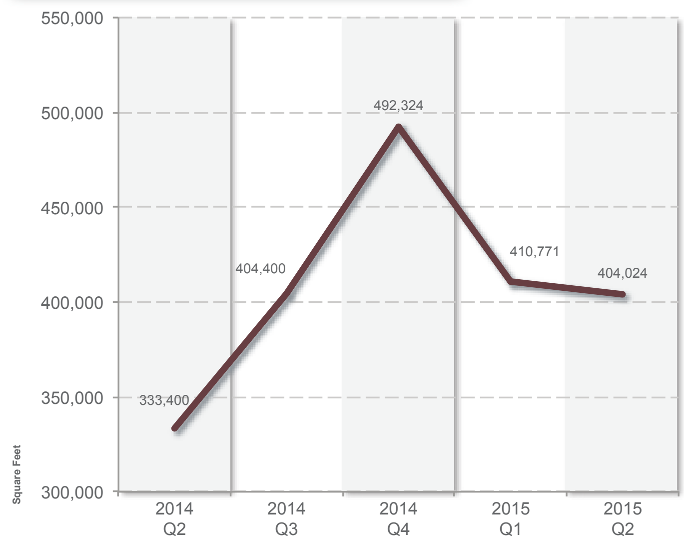
of Kansas renewal of 156,525 square feet downtown. Vacancy continued its steady decline, as well, dropping 10 basis points in Q1 and Q2 after two 30 point declines in the final two quarters of 2014. While 404,024 square feet of space remained under construction in Q2, just one building totaling 6,747 square feet was completed. However, there is more activity in adaptive reuse projects, including the 30-story Commerce Tower, which is in the process of being converted to a 265 unit apartment building.

As expected, average asking rental rates moved up again, finishing the quarter up $.16 to $17.56. Year-over-year the rate has moved up by $.45. With those rates for quality product, the advantageous demographic profile of the population and new public works projects like the downtown streetcar line, it's no wonder large space users are increasingly focused on the Kansas City area. The long anticipated streetcar line will carry its first passengers in 2016 and has attracted as much as $123 million in capital for new office buildings to be constructed alongside hotels, retail and multifamily projects.

Kansas City is unusual in that the Kansas/Missouri state line runs right through the middle of the market, which encourages the respective governments to lure large employers who use large blocks of office space with tax and other incentives. This has precipitated many short distance moves and encouraged companies to move back and forth as new incentives are offered on either side of the border.

AVERAGE SF RENTAL RATES

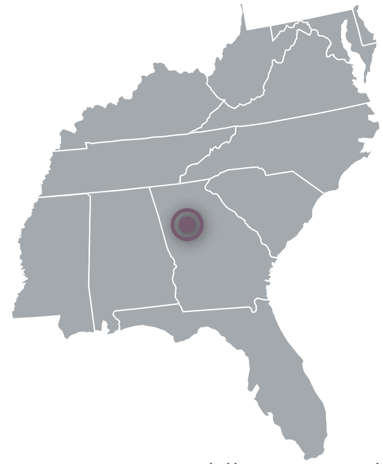
SF UNDER CONSTRUCTION



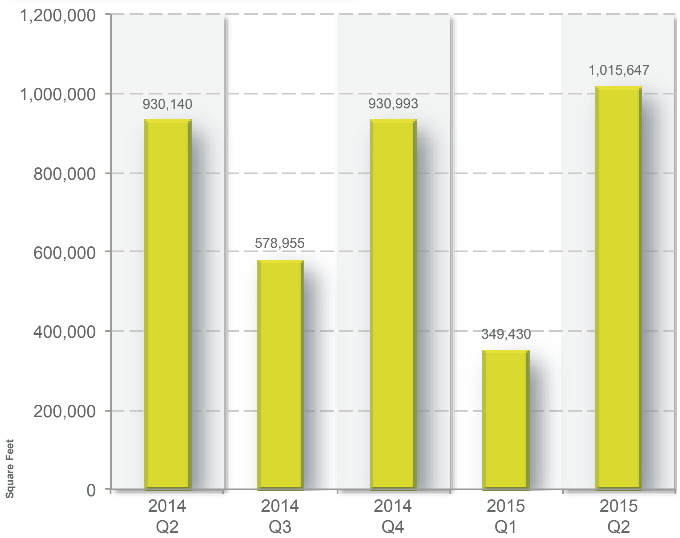
A LOOK AHEAD.

- Leasing activity will remain strong throughout 2015
- Net absorption will remain positive and steady
- Some obsolete buildings will be removed from the office base due to repurposing projects
- Vacancy will move down at its current pace for the next several quarters
- Build-to-suit activity is expected as some larger requirements cannot be satisfied in existing buildings
- The flight to quality will continue as more tenants become willing to pay a premium to be in convenient, mixed-use projects

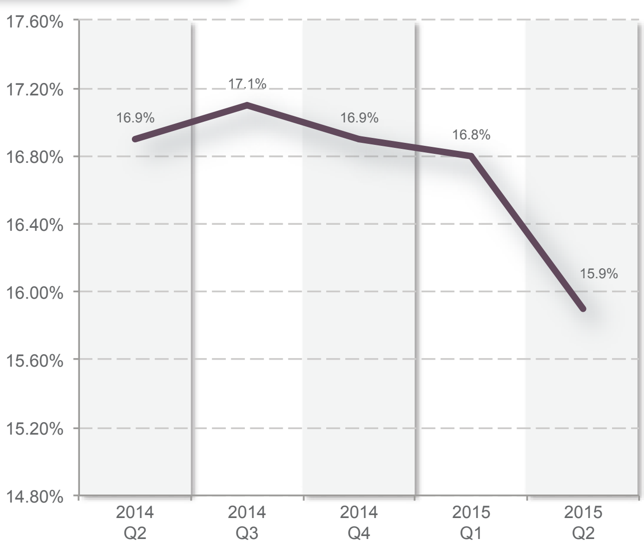
ATLANTA



NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Despite concerns over the Eurozone, Middle East and dismal US GDP growth in Q1, Atlanta's office market improved during Q2. Net absorption remained positive at 1,015,647 square feet, aided by the 187,791-square-foot lease for Halyard Health and the 111,815-square-foot deal for Spanx in Buckhead. The vacancy rate fell 50 basis points to 15.9%. Atlanta's strong job growth and hub location attracts employers who need a highly-skilled and educated workforce. Unemployment in the Atlanta region stood at 5.9% by the end of May and the region remains a national leader in workforce expansion. That pleases investors who pursue trophy office buildings believing net absorption and rent growth will remain strong.

Average asking lease rates in Q2 were up sharply, rising $.50 to $20.84 per square-foot. Class A moved up $.57 to $24.35 per square-foot. Class B rent growth, especially in the suburbs, continues to lag, as tenants desire locations closer to the city center and will pay a premium for the privilege. That makes space in submarkets like Buckhead, Central Perimeter and Midtown in high demand and rates are moving up faster in those trendy locales. Vacancy goes up and prices go down as distance from the city center increases.

15.9%	$20.84	1,015,647	211,572,631	1,669,000
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

ATLANTA - TRENDING NOW (continued)

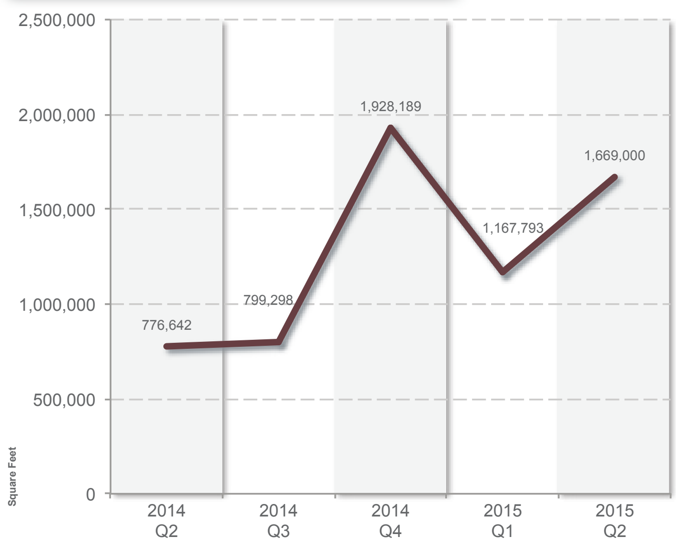
Leasing activity topped 1,809,178 square feet in Q2, but a smaller share of that activity is showing up in the absorption numbers in 2015. This could be due to sticker shock. Many tenants currently in the market signed existing leases when rates were much lower. Rapid rent growth is great for landlords, but it can put the brakes on expansion and force tenants to suffer with inefficiencies and renew in place. While it saves on moving costs, retrofitting space while it's occupied can impede profitability in the short term. From a longer term perspective, tenants who choose not to upgrade also risk having their space become obsolete, especially in terms of attracting younger workers.

Development is concentrated in Class A product in Buckhead and the Central Perimeter. By the end of Q2, 1.67 million square feet was under construction, including Tishman Speyer's Three Alliance Center, the only office tower currently underway. In 2015, just 35,189 square feet of new space has been delivered, compared to 177,000 square feet for the first half of 2014. Other developments are mainly existing property conversions that appeal to companies wooing millennial workers. Talk of more spec activity abounds, but the rents needed to make new projects pencil exceed current levels.

Rising construction costs present another challenge. With the simultaneous construction of stadiums for the Falcons and the Braves, and multi-family construction at a high level, supply of materials and labor are running short and costs are moving up. Rents to justify those increases run in the $33-$38 per square-foot range, but the region is yet to cross the $30 threshold.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

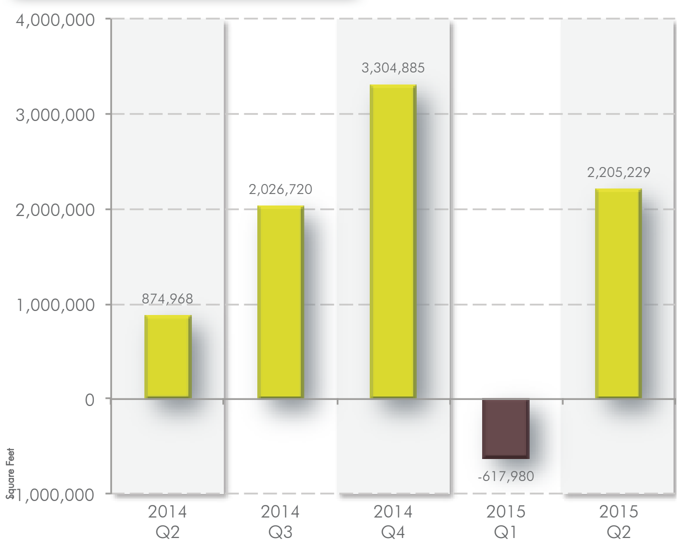


A LOOK AHEAD.

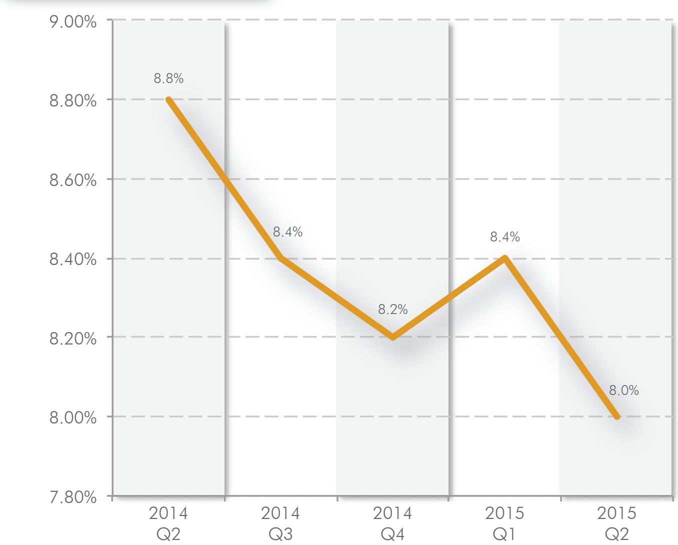
- Cap rates will remain compressed, as Atlanta's pricing is still favorable to coastal markets
- Net absorption will remain positive, but will be a smaller percentage of leasing activity
- Rising lease rates still pose a challenge to tenants who signed leases from 2009 to 2012 at much lower rates
- New workplace strategies geared to younger workers will change the way space is designed

MANHATTAN

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

After a less than memorable quarter in the first three months of 2015, the Manhattan office market picked up the pace again in Q2. Net absorption, which had turned in Q1, posted a strong positive result for Q2 adding an additional 2,205,229 square feet gain in occupied space. It was all about class A for the quarter, as the premier stock of office space registered 2,226,651 square feet to offset a negative 255,494 square feet in class B product. Class C also turned it around in Q2, adding 143,637 square feet to offset its own Q1 loss. As we have noted in previous reports, wild swings in absorption quarter-to-quarter are anticipated in a market that produces so many large transactions and so much construction.

The average asking rental rate moved up another 1.04% to $69.85 per square foot in Q1, but rates reached more than $100 per square foot for premium properties. To offset rising rents, many are tenants are downsizing operations when they move by increasing employee density through more open space designs. Rent growth remains strongest in the Midtown South and Downtown markets, driven by TAMI (technology, advertising, media and information) and professional services companies that are also creating the most new jobs. The workforce in New York City has grown

8.0%	$69.85	2,205,229	477,482,226	11,325,029
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	OFFICE SF INVENTORY	SF UNDER CONSTRUCTION

MANHATTAN - TRENDING NOW (continued)

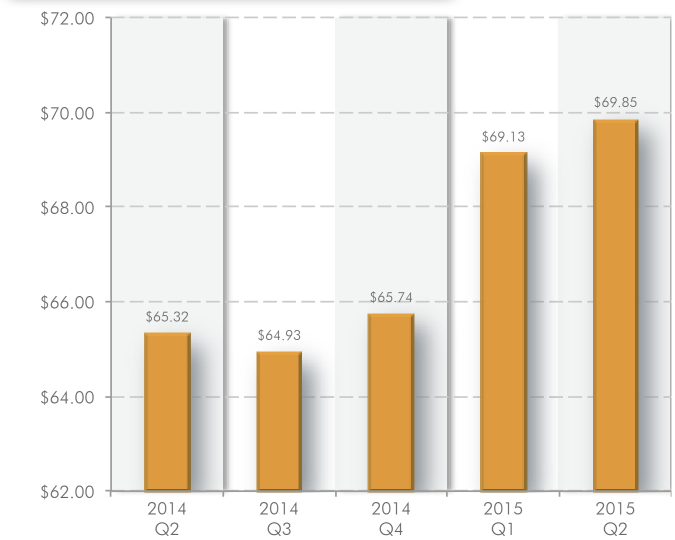
by 3.1% in the last twelve months and the seasonally adjusted unemployment rate has fallen to 6.1%.

New deliveries were up to 473,672 square feet in Q2 after only a single 18,000-square-foot building was added to Manhattan's 588-million-square-foot base in the first quarter. Deliveries are expected to pick up in the next several quarters, as just under 12 million square feet was under construction by the end of Q2. Major projects underway include the 2,861,000- square-foot 3 World Trade Center building and 30 Hudson Yards, a 2,390,000-square-foot building, both of which are substantially preleased.

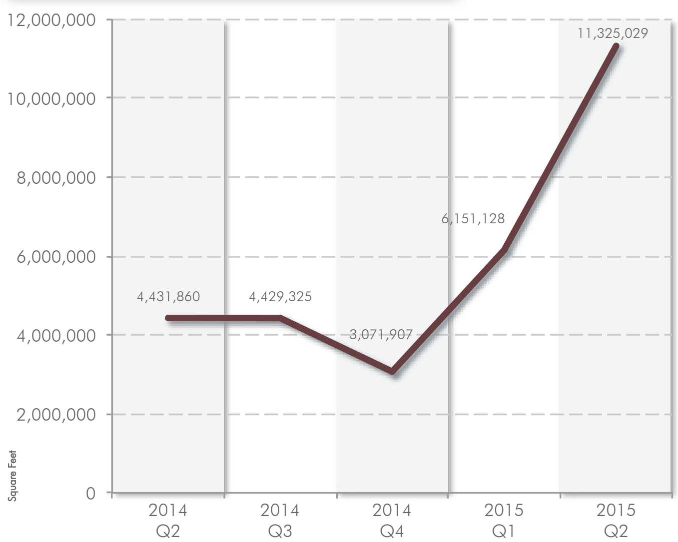
An emerging trend is the attention to off-Island locations, particularly Downtown Brooklyn and Long Island City, by Manhattan-based firms. These areas are undergoing a transformation that has spurred new investment in retail space, entertainment venues and multi-family residential properties that offer a viable, and less expensive alternative for expanding businesses looking to attract and retain younger workers. Just a few extra stops on existing public transportation, and a whole new market opens up to those looking for options in an ever-tightening Manhattan office market.

Investor demand is still off the charts. With foreign buyers, especially from China, in competition with domestic institutional players, cap rates have moved lower than in any other major US markets. But, the buyers keep on coming and they even have an appetite for non-trophy assets that can be repositioned in a market running short of quality space. They also like the direction of the vacancy rate, which fell another 40 basis point in Q2 to 8%.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD.

- Net absorption will remain volatile as the timing of moves in and out of major blocks of space will continue.
- Sublease inventory, will remain predominantly in class A properties
- Rents will continue to move up as vacancy declines into the low 8% range
- Look for new opportunities to lease in properties being retrofit to current quality standards
- New developments will be mixed-use with residential and retail components
- Cap rates for investment properties will remain compressed in the mid 4% range
- TAMI, professional services, healthcare and financial services will be significant contributors to job growth throughout 2015

*buildings with a minimum 100,000 square feet RBA, with the exception of Soho/Noho, which is 50,000 square feet RBA
*Lee & Associates - NY Office metrics had a change in analytics commencing Q1 2015

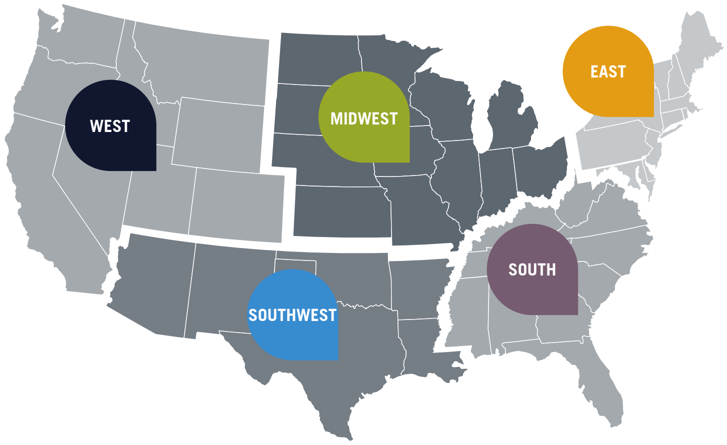
SELECT TOP OFFICE LEASES Q2 2015

BUILDING	MARKET	SF	TENANT NAME
1 Manhattan West	New York City	544,009	Skadden, Arps, Slate, Meagher & Flom LLP
2201 Lakeside Blvd	Dallas/Ft Worth	399,788	RealPage, Inc.
9401 & 9601 E Panorama Cir	Denver	273,400	Comcast Corporation
2901-2929 N Central Ave	Phoenix	261,267	Banner Health
West Memorial Place Phase II	Houston	171,426	IHI E&C
40 E Rio Salado Pky	Phoenix	162,808	Zenefits
Tollway Office Center II	Dallas/Ft Worth	160,000	Liberty Mutual
Zenith Ridge III	Pittsburgh	150,000	Rice Energy
330 W 34th St	New York City	144,987	Foot Locker, Inc.
184 Liberty Corner Rd	Northern New Jersey	144,536	GlaxoSmithKline

SELECT TOP OFFICE SALES Q2 2015

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
America's Square	Washington DC	461,484	$1,083.46	4.46%	Jamestown	Dweck Properties
1000 Main	Houston	837,161	$520.21	5.5%	Union Investment Real Estate GmbH	Invesco Advisors, Inc.
North Park Town Center	Atlanta	1,527,720	$227.79	5.7%	Cousins Properties Inc.	AEW Capital Management
Willis Tower	Chicago	3,781,045	$343.82	6.82%	The Blackstone Group LP	The Moinian Group

Nationwide Lee Offices



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(LA ISG)

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The Lee Office Brief

Q2 2015

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COMMERCIAL REAL ESTATE SERVICES