The Lee Office Brief

Q3 2016

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COMMERCIAL REAL ESTATE SERVICES

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$12+ billion transaction volume 2015

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

870 agents and growing nationwide

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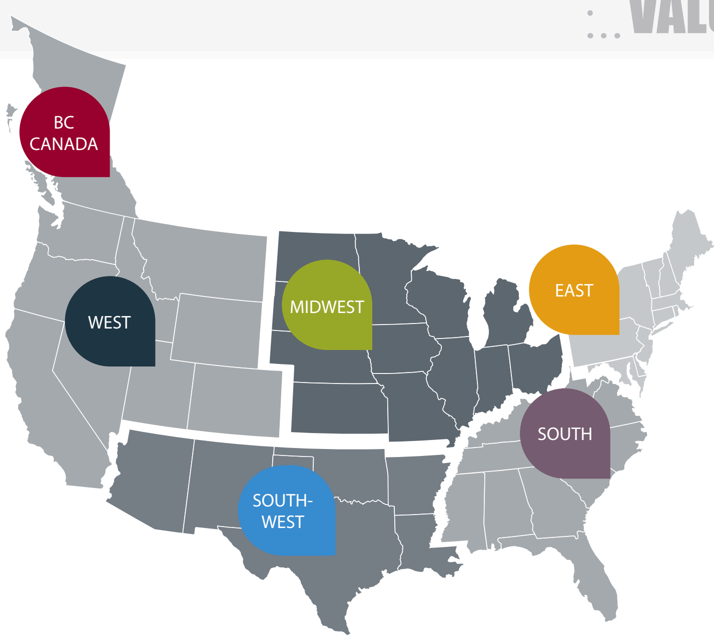
Our agents understand real estate and accountability. They provide an integrated approach to leasing, operational efficiencies, capital markets, property management, valuation, disposition, development, research and consulting.

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

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



THE POWER OF THE LEE NETWORK

Irvine, CA
Orange, CA
Newport Beach, CA
Ontario, CA
Riverside, CA
Los Angeles, CA
Industry, CA
Carlsbad, CA
Stockton, CA
Pleasanton, CA
West LA, CA
Sherman Oaks, CA

Central LA, CA
Temecula Valley, CA
Victorville, CA
Calabasas, CA
Los Olivos, CA
San Luis Obispo, CA
Ventura, CA
San Diego, CA
Reno, NV
Oakland, CA
Antelope Valley, CA
Santa Barbara, CA

Palm Desert, CA
ISG- LA, CA
Boise, ID
Long Beach, CA
Denver, CO
Pasadena, CA
Walnut Creek, CA

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

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

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

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

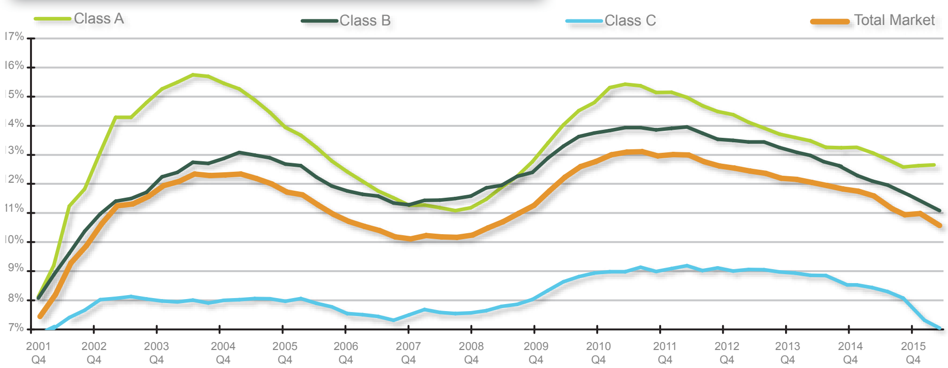
Vancouver, BC
Canada

US OFFICE MARKET

Another Win for the Office Market

After a lackluster start to the year, the US office market surged in Q2, and followed up with another strong showing in Q3. Vacancy continued to decline, rents kept moving higher and net absorption remained well into positive territory. New deliveries maintained momentum, as well. In many ways, the second and third quarter numbers are mirror images of one another. On the other hand, a handful of other hub markets for the tech industry like San Francisco, Seattle and Raleigh/Durham made big gains in Q1. The similarities are most evident in the absorption numbers. In Q3, a gain in occupied space of 36,110,000 square feet was realized, a scant 20,000 square foot difference from Q2's total. That is more than double Q1's total and back in line with the 38 million square feet of net gains tallied in Q4 of last year. This clearly indicates the ongoing demand for office space nationwide. Of note, however, is the fact that two of the country's largest office markets, New York City and Chicago, have each posted close to 1 million square feet of negative net absorption this year. Almost every other primary and secondary market coast-to-coast, has experienced net gains in occupied space. Market leaders in absorption include Boston at 3.9 million square feet, Seattle/Puget Sound at 3.5 million square feet, Dallas/Fort Worth at 3.4 million square feet, Greater Los Angeles at 3.3 million square feet and Detroit at 3 million square feet. Even Houston, has positively absorbed space year-to-date, but momentum there is still declining due to the ongoing energy sector slowdown. Massive amounts of sublease space pouring onto the market in the nation's energy capitol are certain to impact market performance there going forward. The San Francisco/Silicon Valley market, superheated over the past several years due to tech sector job growth, may finally be cooling off as job gains moderate and low vacancy limits absorption gains. By building class, net absorption remains in balance, as Class A, B and C product all reported strong Q3 and year-to-date gains.

VACANCY RATES BY CLASS 2001-2016



ECONOMIC DRIVERS

Click below for info on...

A LOOK AHEAD

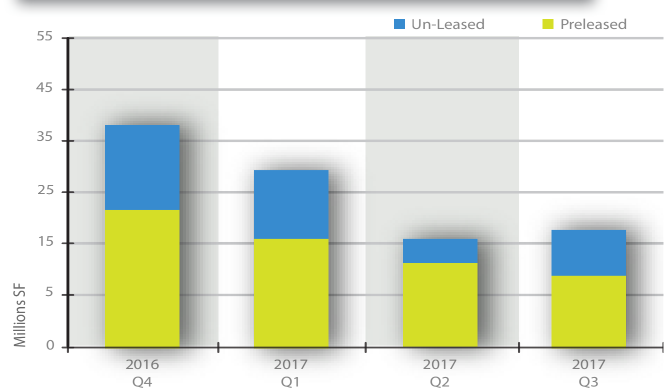
GDP GROWTH

EMPLOYMENT

MONETARY POLICY

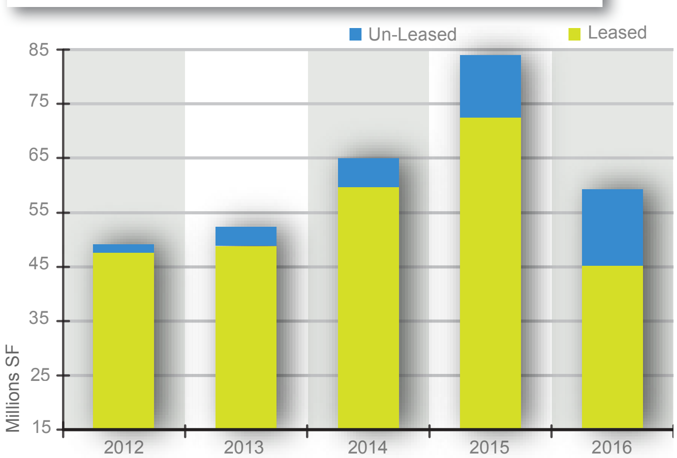
FUTURE DELIVERIES

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



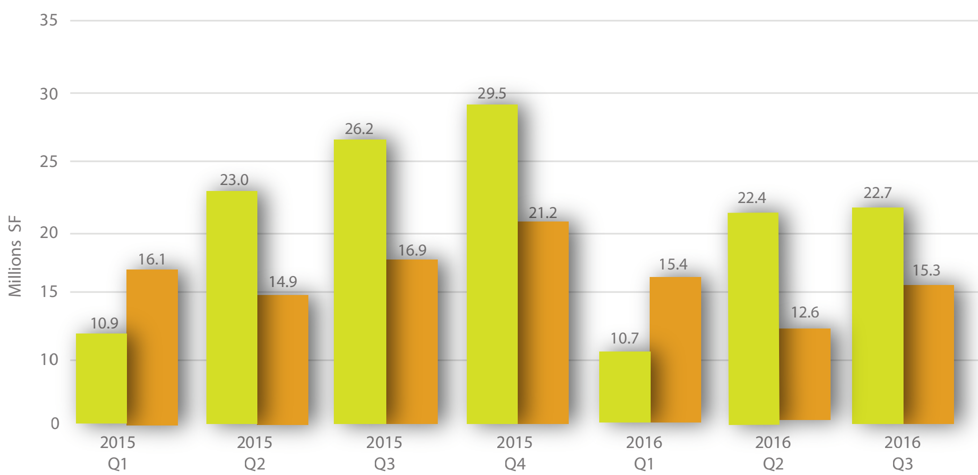
RECENT DELIVERIES

LEASED & UN-LEASED SF DELIVERIES LAST 5 YEARS



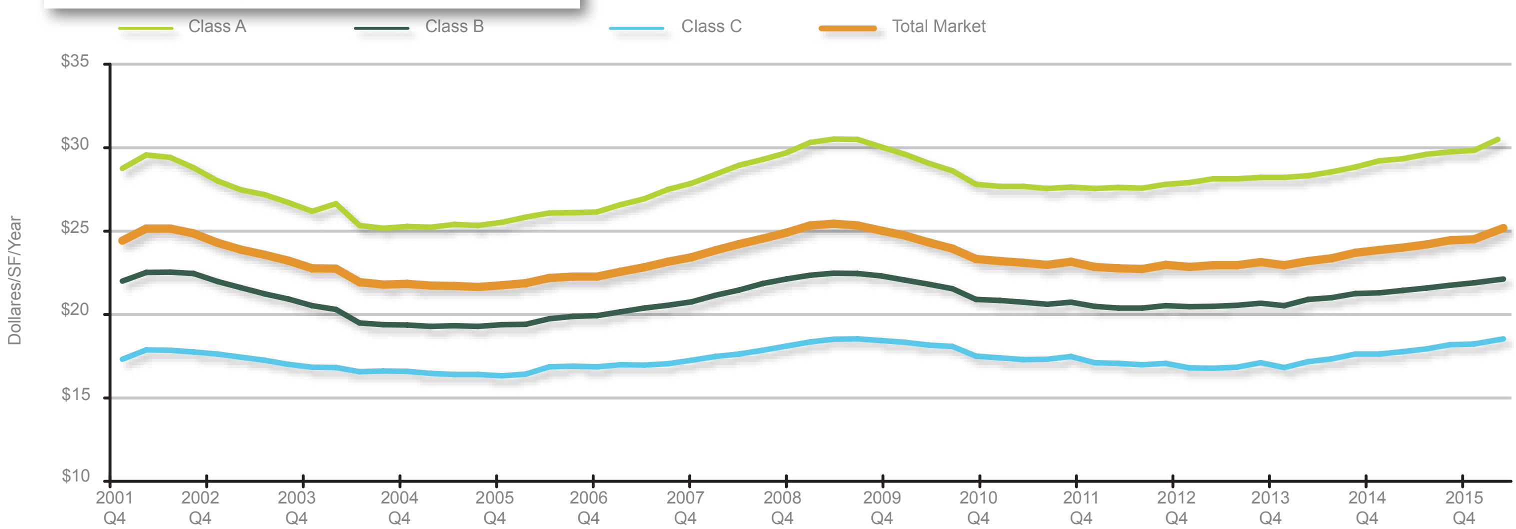
In terms of Suburban versus CBD performance, over 90% of the Q3 net absorption was recorded in the suburbs. However, many suburban submarkets around the country are developing urban hubs that are attracting a growing number of employers who are intent on being close to millennial workers who prefer higher density areas because it allows them to live, work and play within walking distance.

ABSORPTION & DELIVERIES PAST 7 QUARTERS



Average asking lease rates for the US moved sharply higher in Q3, up $.40 to $23.97 per square foot. That is a 1.7% increase in just three months. Rents are moving up in most office markets around the country, but there are significant differences in the trajectory of rent growth within local markets as tenants move between building classes and submarkets to realize operational efficiencies. The quest to do more with less is ongoing. Tenants across all sectors are looking for ways to leverage advances in communication and computing technologies to occupy less space. If

HISTORICAL RENTAL RATES 2000-2015
BASED ON FULL-SERVICE EQUIVALENT RENTAL RATES



space is going to keep getting more expensive, savvy business owners and CEO's are sure to continue looking for ways to shrink their facilities footprints. Markets with more active tech and healthcare sectors tend to see bigger rent gains. Energy markets are finally seeing rent declines. The looming problem there is the large blocks of space that have been coming back on the market for sublease. That pressure on rents and net absorption, is likely to persist until the slack in demand caused by under-utilization tightens back up.

The level of new deliveries remained steady in Q3 at just over 20.1 million square feet in 424 new buildings, after the delivery of 19.4 million square feet in Q2. The amount of space under construction rose by 5 million square feet in Q3. The quarter ended with 147.5 million square feet of space in the construction pipeline, with more than half of that total concentrated in the nation's ten largest markets. New York City is at the top of that list with nearly 13.5

million square feet underway. Dallas/Fort Worth is not far behind at 11.8 million square feet, followed by Washington DC at 10.7 million square feet and South Bay/San Jose (Silicon Valley) at 10.1 million square feet. Another tech-heavy market, Seattle/Puget Sound, rounds out the top five at 8 million square feet. The largest project underway in Q3 was the 3 World Trade Center tower in Manhattan. That building is set for delivery in early 2018. Developers continue to focus on mixed-use projects in urban core areas that are near public transit and entertainment venues, which are high priorities for millennials. However, high land prices, rising construction costs and more cautious loan underwriting is keeping speculative development in check, which limits the risk of overbuilding.

Institutions and private investors, both large and small, have been chasing short supply of office product for sale. Cap rates remain compressed to record lows and core assets are trading hands below 5%. Although there are signs of a change in market trajectory, and investors are well-advised to increase efforts to underwrite local market metrics before paying the current premium. Some markets may be peaking in terms of rent growth and if cap rates begin to move higher, that combination poses significant risk, as the rise in cap rates may not be mitigated by growth in net operating income.

Foreign buyers keep pouring capital into US assets in their ongoing efforts to protect capital that they see as being at greater risk around the world. Investors everywhere still see the US as the safest of safe havens to stash capital as prospects for global economic growth become more uncertain.

A LOOK AHEAD

The US office market has a good head of steam for the time being but US employment growth has been slowing on a twelve-month rolling average basis. Over 100,000 new jobs need to be created each month just to keep up with new entries into the workforce. With monthly job growth averaging just over 150,000 new positions, the impact on net absorption in 2017 should be measurable. Fortunately, a good percentage of the jobs being created are generated by office-using tenants, but recent results indicate a disproportionate number of jobs being generated in the retail, healthcare services and restaurant sectors. Many of these positions pay less, are offered on a part time basis and do not increase the need for office space. Wage gains have also been lackluster, running just ahead of core inflation, which is currently hovering at 1.7%. Poor wage growth is a drag on consumer spending, the key component of the GDP equation.

Rent growth will continue, especially in major markets where big employers continue their efforts to upgrade their workplace designs to attract and retain a workforce that is getting younger each quarter as baby boomer retirements increase.

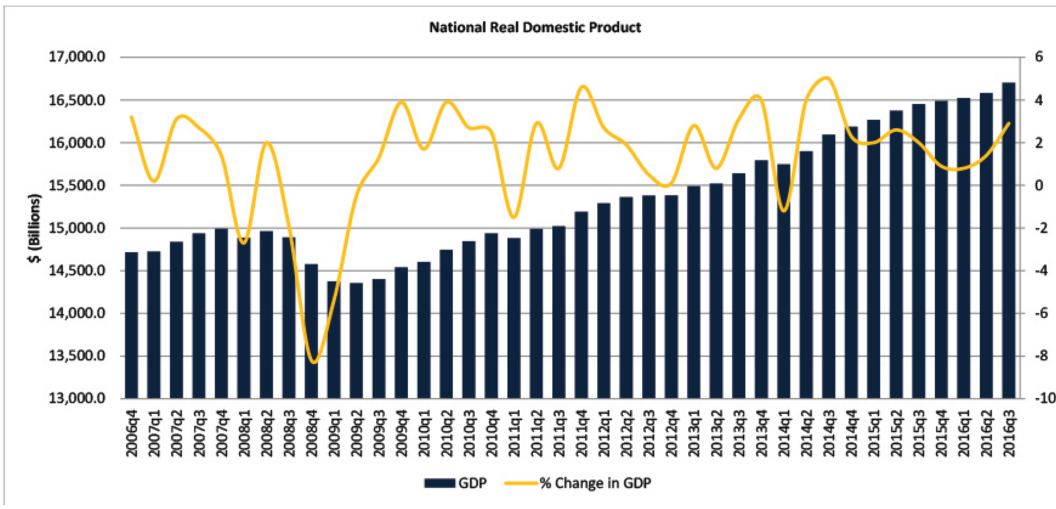
Without a substantial increase in construction, which is not expected in 2017, vacancy should continue to decline in 10-20 basis-point increments in the next several quarters. Markets more dependent on the energy sector will see vacancy move in the other direction, as more sublease space hits the market.

GDP GROWTH

US GDP, the benchmark that tracks the total output of US goods and services, is perhaps the most closely watched statistical barometer in the world. Our economy is the largest on the planet and we consume more foreign goods and services than any other nation. Therefore, the fortunes of those nations who depend on exporting goods and services to the US are inextricably linked to our own.

Unfortunately, US GDP growth over the past several quarters has been dismal, running just above stall speed despite massive intervention by our central bank. In the fourth quarter of 2015, the US economy grew at an annualized rate of just .8%. In Q1, the economy expanded by just .9%, followed by a 1.4% rate in Q2. Even if things pick up in the second half of the year, it is unlikely that the US will achieve even a 2% rate of growth. In 2015, GDP grew at a 2.4% clip.

QUARTER-TO-QUARTER GROWTH IN REAL GDP



The current estimate of Q3 growth offered by the Atlanta Fed's GDP Now tracker, is at 2.9% and has been trending down each week. As poor as our economic growth is, it's better than it is in Europe and Japan, where governments are resorting to drastic measures to keep their economies from sliding into recession. The central banks of the EU and Japan have resorted to Negative Interest Rate Policy (NIRP) and massive bond-buying programs to encourage corporate borrowing.

Political turmoil, civil unrest, and economic challenges around the world have dampened expectations here at home. There is no denying the effects of globalization and things are not going well outside our borders. So, only diehard optimists are predicting much near term improvement in the US GDP growth rate. The bigger question now is whether or not US companies and consumers will acclimate to a lower growth model and accept it as the "new normal."

Volatility in equities has been on the rise in 2016, as US companies grapple with sluggish market conditions. Corporate earnings have declined repeatedly the last six quarters and companies have been resorting to cost-cutting and stock buyback programs to increase profits and earnings per share. Reducing operating costs means job cuts and that means reduced consumer spending, which accounts for roughly 70% of GDP.

As we pointed out the last two quarters, US consumers have become more cautious. Retail sales growth, a large component of consumer spending, has been spotty at best. Sluggish wage growth remains a problem. Income growth is running just above the rate of inflation, which remains stubbornly below the Fed's target of 2%. Even auto sales, which have been very strong in the past couple of years, are seeing a drop-off, further evidence that consumer confidence could use a boost.

EMPLOYMENT

Job growth, which was running at over 200,000 per month on a rolling twelve month average, has slowed down and become more volatile in recent months. Q3 started strong with a total new job count of 252,000. However, August and September were both disappointing, posting job counts of 167,000 and 156,000, respectively. The low point for 2016 came in May when only 11,000 new jobs were recorded. The best month of the year thus far came in June, when 271,000 new jobs were created. Wild swings in job growth is certain to affect consumer spending and that makes CEOs more cautious and less inclined to implement aggressive growth strategies. If that is so, then we can expect job growth to stay on its current trajectory.

Despite erratic job growth numbers, the U3 unemployment rate (the index most widely used) has only ticked up slightly from its low of 4.7% back in May. As Q3 closed, the U3 unemployment rate stood at 5%, which historically is indicative of a fully employed economy. However, that number is deceiving because so many of the jobs being created are either part time or at the lower range of the wage scale. The U6 unemployment rate, which accounts for part-time workers who would prefer to work full time in their field, is still at 9.7%. This index is perhaps more telling of our employment picture because it makes clear the fact that too many people are working at jobs that don't pay the bills. This reduces discretionary income and negatively impacts consumer expenditures. Concerns over slowing domestic growth and the prospect of recessions abroad is prompting employers to hire more part time and temporary workers. The cost of health care pursuant to the Affordable Care Act (ACA) is also contributing to part-time employment problem as employers are inclined to hire workers just under the 30 hour per week threshold that would require them to provide health benefits.

NATIONAL UNEMPLOYMENT

The Labor Participation Rate, the metric that measures the percentage of those eligible for employment between the ages of 16 and 64 who are currently working, also remains stagnant. Choppy job growth reports and the early exit of Baby Boomers, have combined to keep just 62.9% of potential workers in active production. It is important to note that Labor Participation has moved off a five decade low, but it may begin to move back down in the coming quarters as the rate of retiring Baby Boomers increases.

EMPLOYMENT

Wage growth is another problem that has dogged the US economy. Full-time, high-paying jobs are in short supply and wage growth overall is tracking at a rate of approximately 2.6%, marginally above the current rate of inflation. That kind of wage growth offers little relief to workers at or near the minimum wage level who are struggling to make ends meet. It's no wonder that so many middle class workers are disillusioned with a recovery that they feel has left them on the outside looking in. Many of them come from the manufacturing sector, which has been steadily shedding jobs for the past year.

Layoffs in the energy sector has not helped the job picture, either. Upwards of 700,000 full time positions have been eliminated since oil prices declined sharply back in 2014. Many of these jobs are high-paying, technical positions that are not easily replaced in other business sectors. Until oil prices move much higher than current levels, we can expect more of the same kind of job losses.

MONETARY POLICY

In December of last year, the US Federal Reserve Bank finally pulled the trigger and boosted the Fed Funds rate by 25 basis points to .5%. Since that time, our central bankers have chosen not to take further action, citing any number of reasons to sit on their hands and continue the longest monetary stimulus in Fed history. Some believe our central bankers were caught off guard when their first move on rates roiled world markets and sent the US Dollar soaring. A strong dollar makes US exports more expensive and raises the cost of paying back dollar-denominated loans from around the world.

That first move on rates also sent US equities markets into a slide that many had been predicting. But, the Fed walked back their plans for regular rate hikes throughout 2016 and yield-chasing investors poured back into the equities

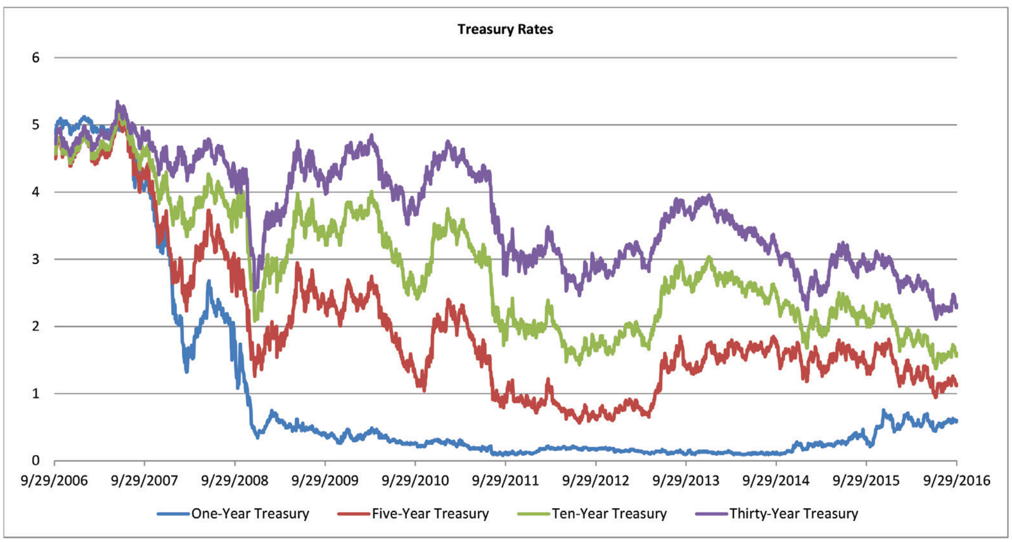
US TREASURY RATES
IN PERCENTAGE

One-Year Treasury
- Rate on Sep. 30, 2016: 0.59%
- 10-Year Average: 0.98%

Five-Year Treasury
- Rate on Sep. 30, 2016: 1.14%
- 10-Year Average: 2.01%

Ten-Year Treasury
- Rate on Sep. 30, 2016: 1.6%
- 10-Year Average: 2.9%

Thirty-Year Treasury
- Rate on Sep. 30, 2016: 2.32%
- 10-Year Average: 3.7%



30-Year Treasury constant maturity series was discontinued on February 18, 2002 and reintroduced on February 9, 2006. From February 18, 2002 to February 8, 2006, Treasury published alternatives to a 30-year rate. Historical trend reflects discontinued time frame as an estimation.

markets, driving stock prices back up despite six consecutive quarters of earnings declines. Now the chatter about another rate hike this December is getting louder and most experts believe there is at least a reasonable chance for a single rate hike after the Presidential election but before the end of the year. However, few will be surprised if the Fed kicks the interest rate can again.

While the talk here is about when to raise rates, central bankers around the world have been going in the opposite direction. The European Central Bank (ECB) has taken its benchmark rate into negative territory, as has the Bank of Japan. That means that borrowers get paid for borrowing money, which has raised legitimate concerns within the business and investment communities. Both those central banks are buying corporate bonds in addition to their own sovereign debt, raising further concerns over the long term consequences of actions that are based on unproven economic models. The most outspoken critics of central bank policy are calling out individual central bankers they believe are panicking by doubling down on failed policies to save their academic reputations. Given the current state of economies around the world, that argument is sounding more reasonable all the time.

MONETARY POLICY

Back here in the US, Fed Chairman Janet Yellen and her Board of Governors have slowly but surely been painting themselves into a corner by continuing their current easy money policy. With GDP growth near stall speed, there are concerns over what action the Fed can take if we fall into recession. With a Fed Funds rate of .5%, just two 25 basis-point decreases take it to 0%. If that doesn't adequately stimulate GDP growth, then there may be no place to go but into negative territory, which is completey uncharted territory. That will send economic uncertainty to new levels and cause declines in consumer spending and business investment. If that happens, the Fed may be out of ammunition and may leave the federal government with no other choice but to increase spending to stimulate the economy. That means bigger federal deficits that are already on the rise and on their way back to over $1 Trillion per year. Bottom line: the Fed has itself in a pickle and is running out of time and ideas to get the economy back on a track of healthy growth.

Real estate borrowers are still reaping the benefits of the Fed's current monetary policy direction. Mortgage rates have remained at historic lows, and borrowers are in a position to lock in those low rates for up to 25 years. Most lenders use a spread over the yield on the 10 Year T-bill (now at approximately 1.7%) to set mortgage rates. So, long-term loans are still readily available in the 4% range. Until the Fed does more than talk about raising rates, it will still be a good time to borrow money.

Clearly, keeping a close eye on what central bankers are up to around the world is a good idea. More drastic measures are being taken every day somewhere around the world, including the newest tool, negative interest rates. Imagine paying for the privilege of loaning someone else money. Sound crazy to you? If it does, you are not alone.

GLOBAL ECONOMY

In the past two quarters we have been describing the global economic outlook as troublesome. The International Monetary Fund must agree, as it has twice reduced its estimate of global growth this year. The stakes remain high and the outcome of the current global economic conundrum is largely unknown.

Energy exporting nations are reeling from the sharp decline in oil prices, but they can't seem to get on the same page on production levels to support a price recovery. Iran is back in the oil business, which has added unneeded supply and Saudi Arabia keeps pumping to keep the price down in an effort to squeeze out US and Canadian production, which is more expensive. That strategy has worked, but every nation that exports oil has taken a huge hit as a result. Venezuela, Brazil, and Russia have been hit particularly hard. Venezuela is near complete collapse economically and politically, while Brazil is grappling with runaway inflation and government scandals. Nations that export other commodities have also suffered from price collapses relating back to slower growth in China, the world's largest manufacturer.

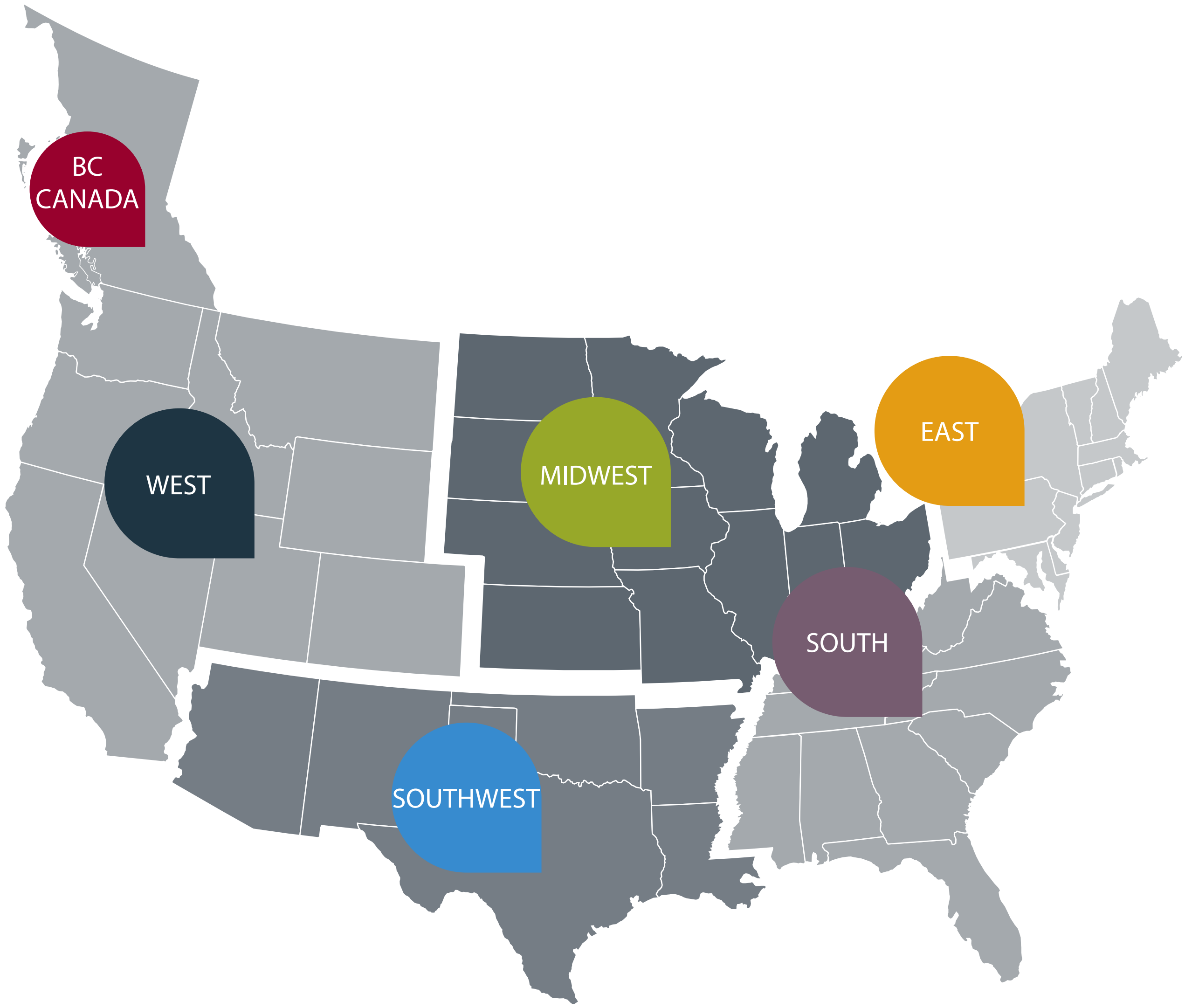
EURO AREA REAL GDP[2]
(QUARTER-ON-QUARTER PERCENTAGE CHANGES)

When the UK made its surprise decision to vote for an exit from the European Union, the long term survival of the EU became a major topic. Few gave the Brexit vote a chance and the shock wave from the vote was felt immediately. Europe's political union is in constant crisis mode these days and there is no governing body with the real authority to enforce anything. Sovereign debts are mounting, unemployment is persistently high and GDP growth in Europe is nearing recession territory. Calls for austerity from nations swimming in debt have been largely ignored, and the ongoing refugee crisis has whipped up nationalist fervor throughout Europe. The Euro and British Pound have taken a beating of late, and central bankers are taking drastic steps to stimulate business and consumer spending.

Oil-rich Middle-Eastern countries, including Saudi Arabia, are burning through cash reserves to cover revenue shortfalls precipitated by the falling price of oil. China is issuing sovereign bonds to help it cope with its massive transition from total dependence on the exportation of manufactured goods.

None of this sounds like good news and that is undeniably correct. However, the US economy is in much better shape relatively speaking. Once again, the world views the US as the safe haven of choice. That keeps capital moving into the US and much of that finds its way to the commercial real estate market. In fact, foreign demand for US real estate assets continues to contribute to gains in asset prices, as it increases competition in all product types. Foreign investors are willing to pay a premium to assure the preservation of their capital.

Key Market Snapshots



LA NORTH
SAN GABRIEL VALLEY
SAN DIEGO
DENVER

PHOENIX
DALLAS/FT WORTH
HOUSTON

CLEVELAND
COLUMBUS
ST. LOUIS

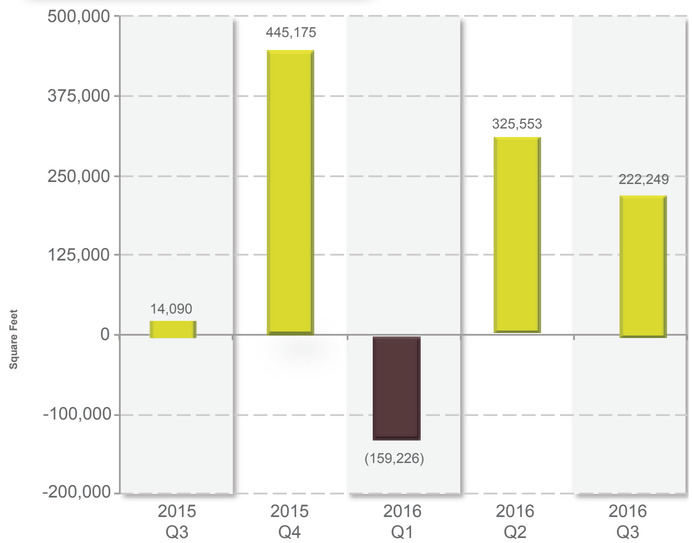
ATLANTA
CHARLESTON
GREENVILLE/SPARTANBURG

NORTHERN NJ
COLUMBIA/MARYLAND
MANHATTAN

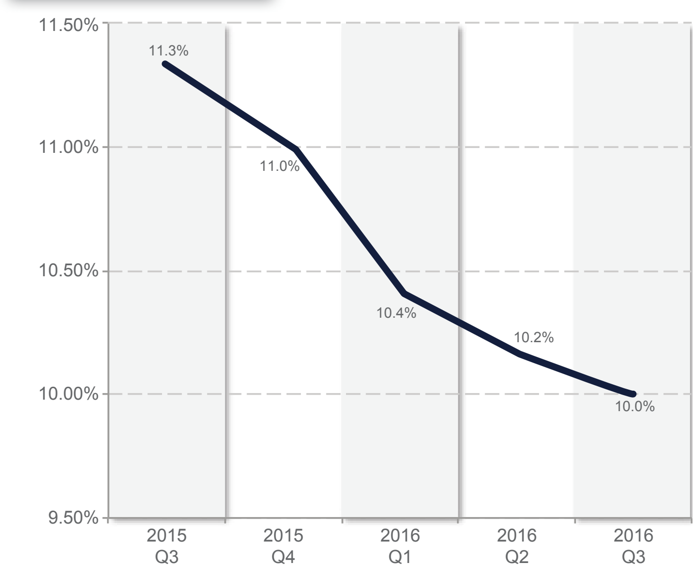
VANCOUVER, BC CANADA

LOS ANGELES - NORTH

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 10,000 square feet

TRENDING NOW

Office leasing activity remains brisk, pushing vacancy rates lower and asking lease rates higher. Following nearly 3 million square feet of leasing in the first half, the third quarter saw another 1.1 million square feet of office space leased, pushing vacancies down to single digits for direct space in a number of markets.

Vacancy levels in submarkets directly impacted by the entertainment industry moved even lower. The Universal City/Studio City submarket vacancy rate is running under 2% and vacancies throughout the East San Fernando Valley including Burbank are now below 7%.

TAMI (technology, advertising, media and information) has fueled much of the leasing activity in the region, but in the third quarter, the entertainment industry seemed to stumble a bit as two major film companies announced significant layoffs. Walt Disney Company cut about 250 workers following the integration of its consumer products and interactive media units. Both divisions have posted declines in operating income over the last two quarters.

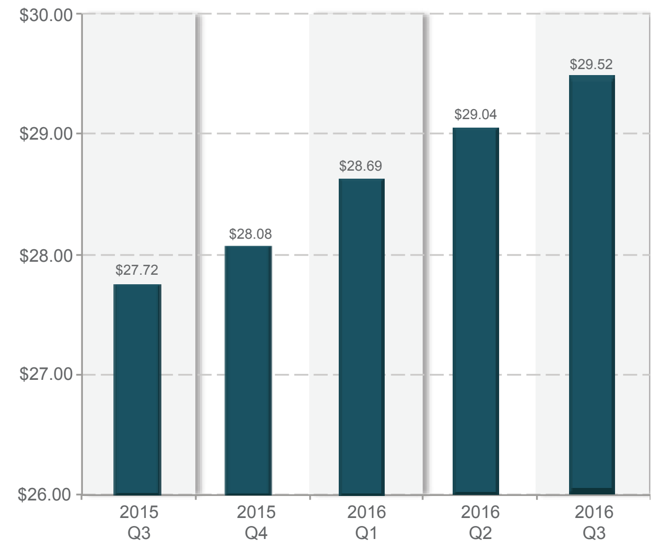
DreamWorks Animation, which maintains its own campus in Glendale, CA, also announced plans to lay off 200 workers. These cuts are the result of DreamWorks' acquisition by Comcast Corp and the related integration of the company into NBCUniversal's film division, now owned by Comcast.

Until box office receipts are tallied, it will be difficult to predict whether these layoffs are the tip of the iceberg in a continuing consolidation of the entertainment industry. But, given the proliferation of media outlets beyond the silver screen and the sheer number of services involved in supporting the film business, the industry will continue as a major user of office space going forward.

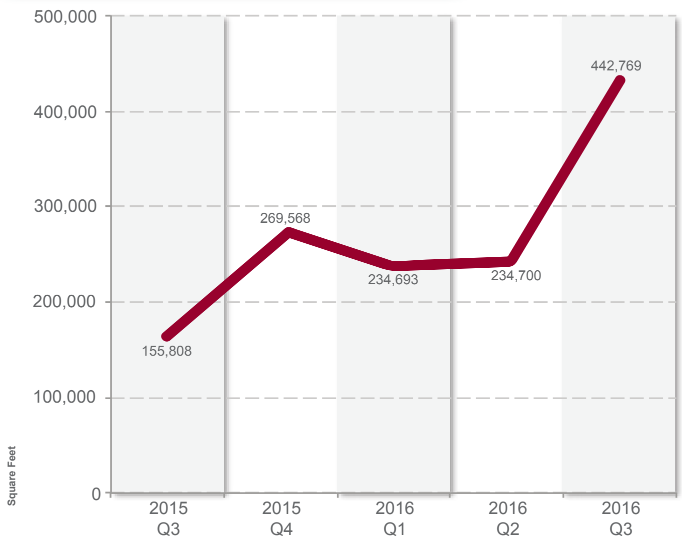
10.0%	$29.52	222,249	80,908,603	442,769
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

LA NORTH - TRENDING NOW
(continued)

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



Equally important is the healthcare and wellness industry. Therapists, dentists, physicians, rehabilitation and chiropractic services and providers related to aging are among the most active users of office real estate. At the same time, a trend to localize health care services is driving the expansion of urgent care centers. UCLA recently leased a large facility in the region for just such an expansion, and Ventana Medical Center, currently under construction in the Tarzana submarket, is already more than 50 percent leased to a cancer treatment facility and Facey Medical Group.

With demand rising and little new supply in the region, landlords have been pushing asking rates up for a number of quarters, and the steady pace has led to a year-over-year asking rate increase of nearly 6.5%, to its current level of $29.52. At the last market peak, rents reached $32.76 per square foot, and that threshold would suggest that there is room for continued rent increases of 6% to 10% over the next 24 months.

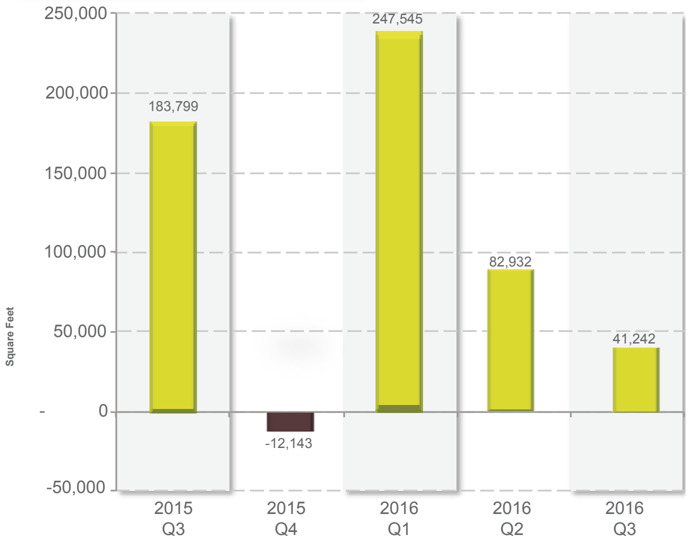
Investor interest in the office sector remains high. The recently announced sale of an office tower in the Sherman Oaks submarket to Sandstone Properties points to the increased attention investors are paying to suburban submarkets with good walkability and transportation access. Los Angeles-based Sandstone Properties acquired the 167,726-square-foot office building from Douglas Emmett for $56.7 million, or $338 per square foot and plans to renovate the asset, built in 1966, for creative office use.

A LOOK AHEAD

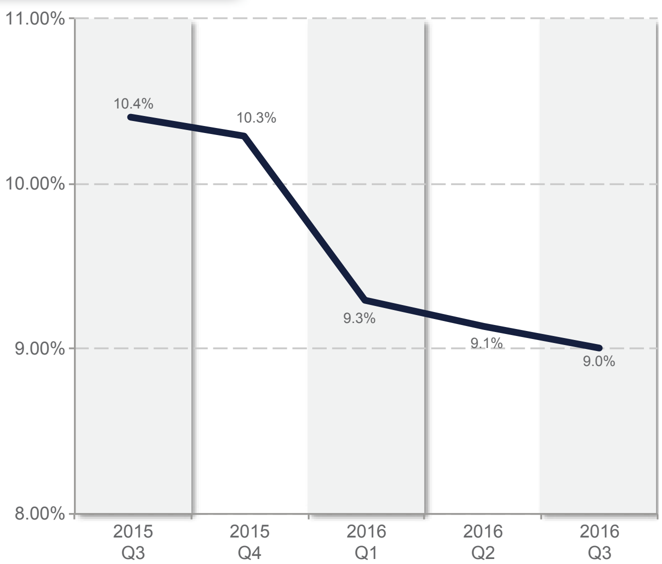
- Leasing activity should continue at current levels, especially in primary submarkets
- Expect vacancy declines of 20-30 bps per quarter for the next several quarters
- Asking lease rates will increase $.02 to $.05 per quarter
- With the completion of the 450,000-square-foot Village at Topanga, construction activity will decline
- Net absorption will remain steady

SAN GABRIEL VALLEY

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

The San Gabriel Valley (SGV) area has a population of nearly 1.8 million in 31 cities – from Pasadena to El Monte in the west to West Covina and Claremont to the east. Major transportation arteries include Interstates 10, 57, 60, 71, 210 and 605, which makes it readily accessible to all of Los Angeles, Orange, Riverside and San Bernardino Counties. The region's base includes Class A buildings in Pasadena and Monrovia, however the majority of properties, which include functional obsolete characteristics, are older Class B and Class C product. But, the area's wide variety of housing options appeals to all socio-economic levels skill levels, and larger users are taking a stronger look at the area to access that workforce at lower cost.

This year, 371,719 square feet of positive net absorption has been recorded, with most of that total coming from the East SGV. San Gabriel Valley is a small-deal market with most transactions under 7,000 square feet. So, net absorption performance requires a consistent high level of transaction volume. Fortunately, smaller users are becoming more active and demand from healthcare services and consolidating medical groups is picking up, but higher tenant improvement costs triggered by Title 24 and ADA regulations are making it tougher for landlords to get deals done at today's lease rates. Net absorption did fall to 41,242 square feet, 50% of the Q2 net gain. Most of 2016's gain in occupied space came in Q1, when over 247,000 square feet absorption was posted.

With the exception of the city of Pasadena, rent growth has been slow in the San Gabriel Valley. In fact, in the past year, the average asking rent across all product types has fallen by $.48. That added to the regulatory burden, makes things even tougher on landlords, especially those with space that has not been updated in recent years. Although the overall average asking lease rate for the entire San Gabriel Valley did manage to move higher in Q3, rising $.24 to $27.60, but that followed a $.36 decline reported in Q2. Class A rents in

9.0%	$27.60	41,242	40,233,656	111,454
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

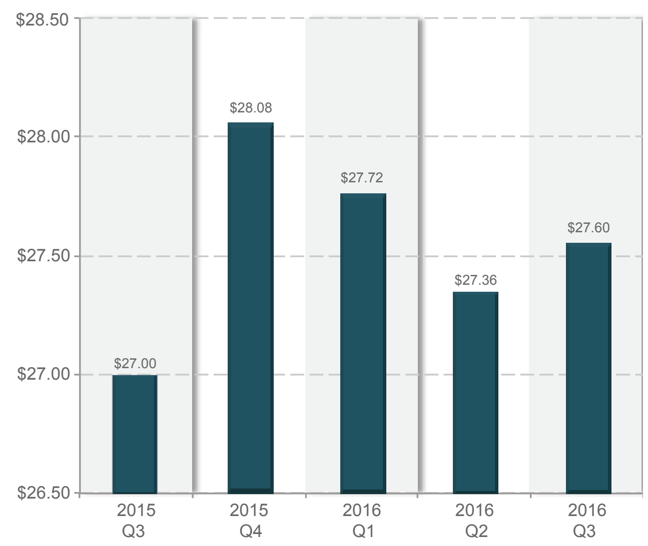
SAN GABRIEL VALLEY - TRENDING NOW (continued)

Pasadena's CBD have seen the biggest gains, but rents there may be topping out and may see a slight decrease going forward. Current rent levels in the San Gabriel Valley remain well under the average for the entire Los Angeles region.

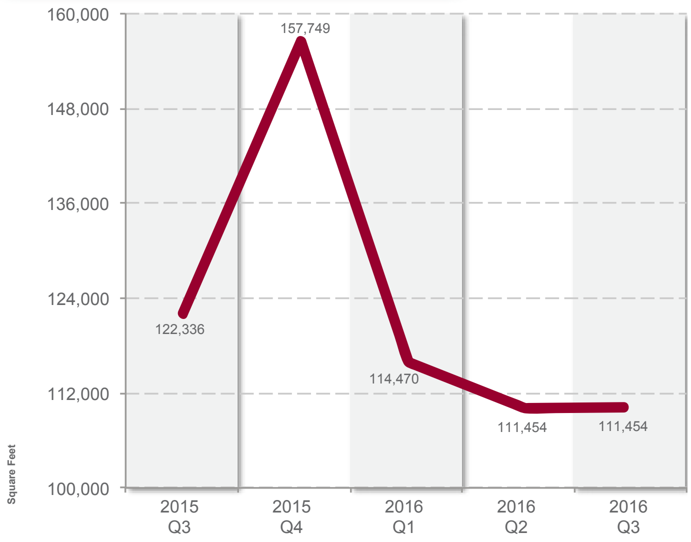
Vacancy in the region is decreasing across all building classes. By the end of Q3, the overall vacancy rate had fallen by 10 basis points to 9%, on a base inventory of 40.2 million square feet. Vacancy is down by 140 basis points in the past four quarters, but most of that drop came in Q1. As in other markets around the US, tenants are looking for quality, but they are looking for it in urban hubs. That has benefitted Pasadena's downtown where Class A space has been leasing up faster than it has been in East SGV.

Development opportunities remain scarce. Just 111,454 square feet of new space is under construction in the San Gabriel Valley. Ground-up development is limited by the scarcity of land, so activity is mostly confined to redevelopment and condominium conversions to satisfy demand for owner/user product. Any office space offered for sale under 15,000 square feet is in high demand. Landlords of functionally obsolete properties who choose not to re-invest and fight the high costs of regulations, have the option of selling to owner/ users.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

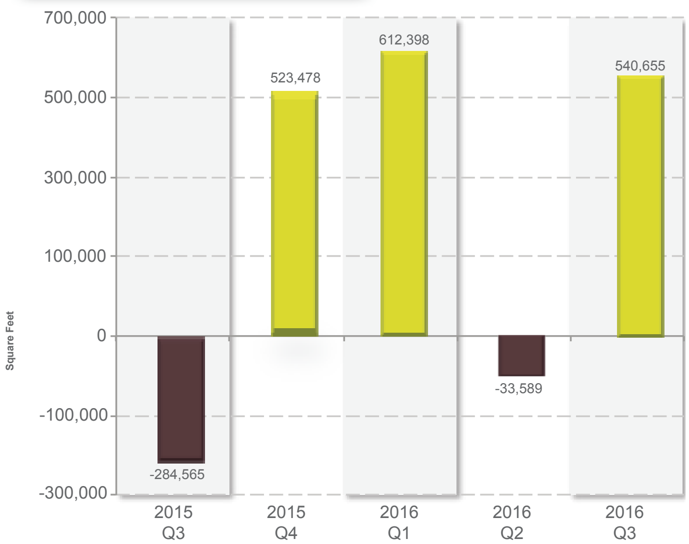


A LOOK AHEAD

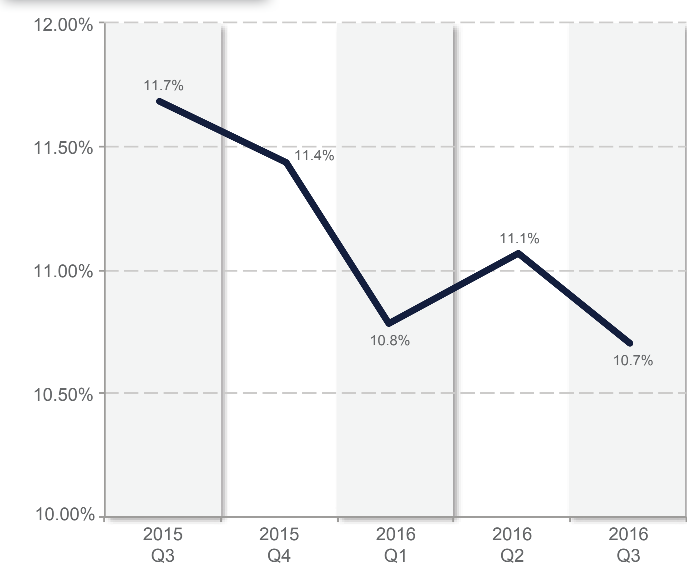
- Net absorption and leasing activity will remain near current levels
- Vacancy will keep moving slightly lower each quarter due to lack of new product deliveries
- Asking rates will move up by 3% in the next year
- More obsolete buildings facing expensive regulatory upgrades will be offered for sale to owner/users
- Investment sales of buildings requiring regulatory upgrades will trade at higher cap rates
- Ground-up development activity will remain low due to lack of available land

SAN DIEGO

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

San Diego's balance of business sectors make it the envy of major markets across the country. San Diego has strong defense, life science and aerospace manufacturing sectors that each generate thousands of high-paying, full-time jobs. The area is also a center for human genome research and drone manufacturing, making clear the diversity, education and varied skill sets of the county's workforce. Add the high quality of life component and the full spectrum of housing alternatives and it's no surprise that the San Diego economy is outperforming most of California's 58 counties.

Office leasing activity remains strong throughout the San Diego area. Even areas hardest hit by the last market downturn are nearly fully recovered. The vacancy rate for all building classes moved another 40 basis points lower to 10.7% in Q3, which is 10 basis points under the previous market peak back in 2007. Class A vacancy is slightly higher at 10.9%, but was down 60 basis points for the period. Class B posted a 40 basis point decline to 12.8% after ticking up in Q2. Landlords have responded to tightening conditions by reducing concessions like free rent and tenant improvements.

That trend should continue due to low levels of new construction. Only 374,626 square feet of new space has been delivered to the market in 2016 and just 365,867 square feet is under construction, a low number given the area's total base inventory of over 114 million square feet. Land is becoming scarce and expensive, and construction costs are on the rise. So, it is unlikely that the region will see significant amounts of ground-up spec development in the near future. Instead, developers will focus more on redevelopment of older product that has become functionally obsolete.

Net absorption rebounded from an unusual dip into negative territory last quarter. In Q3, a net gain in

10.7%	$30.50	540,655	114,141,635	365,867
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

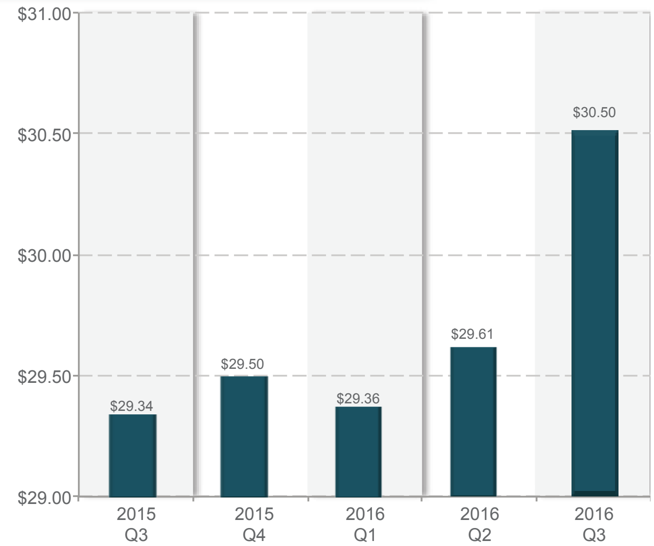
SAN DIEGO - TRENDING NOW
(continued)

space of 540,655 square feet was recorded, bringing 2016's total gain to just over 1.1 million square feet, which already exceeds last year's total gain of 667,000 square feet. Net absorption for Q3 was evenly split between Class A and Class B product.

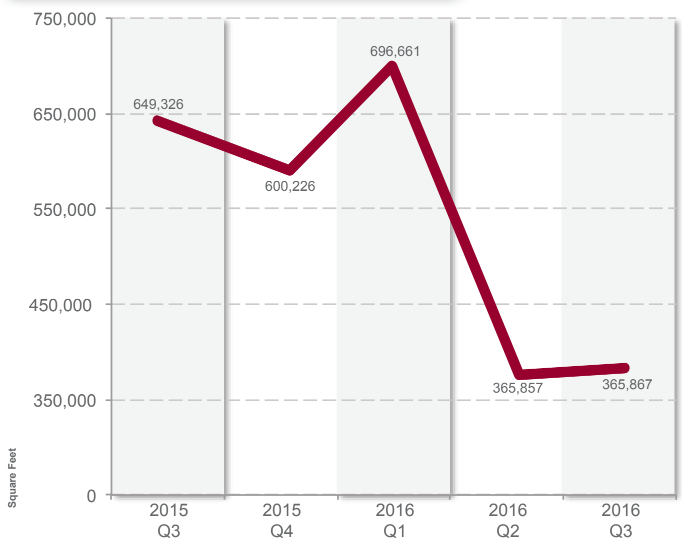
Average asking lease rates across all building classes jumped $.89 to $30.50 per-square-foot in Q3, after posting an increase of $.25 in Q2, which is a spike of nearly 4% in just 6 months. Class A rents rose another $.35 to $37.29, which is three pennies above the peak of 2007. Strong rent growth in Class A, has given the owners of Class B buildings a welcome income boost. Class B asking rates rose a whopping $.89 in the third quarter to a post-recession high of $28.48. However, that is still $1.07 under the 2007 peak.

Creative space also figures into the rent growth equation. The younger workforce has a different set of priorities when it comes to workplace design, and that has owners of older office and flex buildings busy retrofitting their properties to incorporate outside areas that can be integrated into workspaces. TAMI (technology, advertising, media and information) sector companies are among the most active office users, and the people those companies hire prefer creative space designs that generally have more open floor plans, fewer private offices, more natural light and vibrant color schemes. This new design allows companies to save money by allocating less space to each employee, especially for firms that maximize recent advances in mobile communication and connectivity. Wi-fi, laptops and smartphones have all but replaced the traditional desktop computer tethered to a cubicle.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

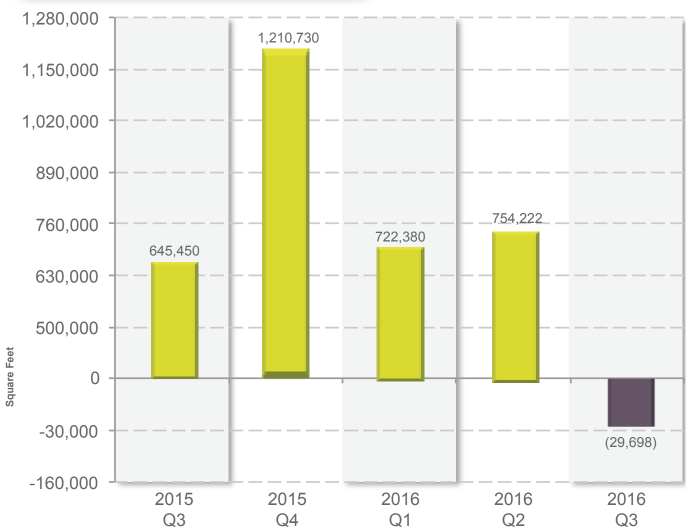


A LOOK AHEAD

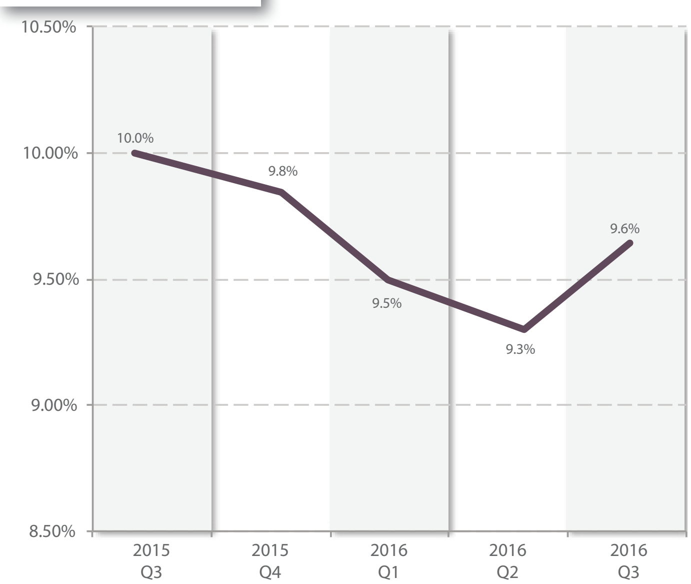
- Uncertainty over the next President's policy agenda could negatively impact leasing activity in the near term
- The vacancy rate should continue to move lower heading into next year
- Spec development activity will decline in 2017
- Tenants can expect rental rates to rise by up to 5% in the next 12 months
- User building prices could see another 15% increase in 2017 if interest rates remain near current levels
- More Class B and flex buildings will be redeveloped to meet ongoing demand for creative space

DENVER

NET SF ABSORPTION



VACANCY RATE



* buildings with a minimum of 30,000 square feet

TRENDING NOW

The Denver office properties market is still suffering from the consequences of the energy sector slowdown. Upstream oil sector businesses have shed employees via mass layoffs, slashed capital budgets and shut down more than half of the country's active drilling rigs to bring supply and demand back into balance. While the price of oil has moved back above the $50-per-barrel threshold, it will have to move much higher to end the current crisis, and that is unlikely in the near term, as global economic conditions are worsening and uncertainty is on the rise.

The fallout for Denver's office market is undeniable. The amount of space offered for sublease rose in Q3 for the third straight quarter. Concessions like free rent and tenant improvement allowances are back on the table and landlords are adding amenities to make their spaces more attractive. Growing businesses in other sectors are directly benefitting from the softening market, as the playing field in terms of lease negotiations has leveled out. However, that boost has not been strong enough to offset the energy sector contraction.

Time on market is also on the rise, prompting landlords to lower lease rates to stimulate activity and compete with the increase in sublease space. On the other hand, tenants who are subleasing excess space are able to recoup most of their costs, as demand is still strong in other business sectors. Most of Denver's expanding business base is comprised of non-energy, smaller tenants that employ the younger, highly-educated workforce that is increasingly attracted to Denver's quality of life potential.

Net absorption turned negative in Q3. The loss was slight, just 29,698 square feet, but it came on the heels of three straight quarters of strong positive gains. Class A posted a small gain in the period, but Class B and Class C were both in the red.

9.6%	$24.94	(29,698)	196,944,418	5,180,281
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

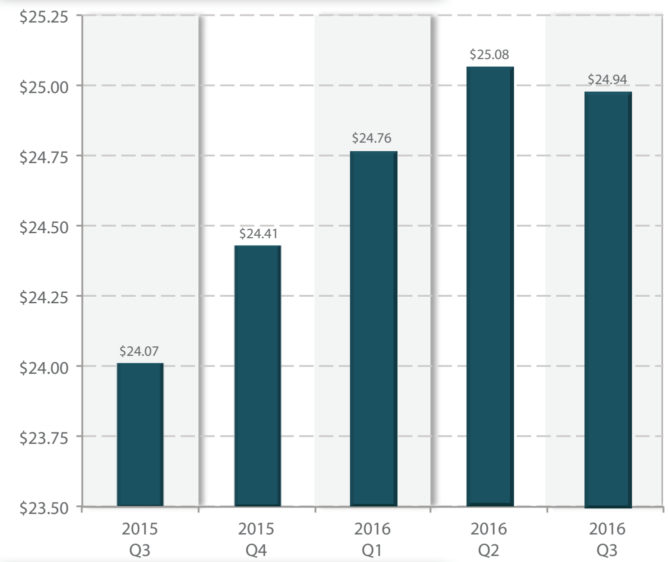
DENVER - TRENDING NOW
(continued)

Variations in absorption by location is perhaps more indicative of market conditions. The CBD generated its third consecutive quarter of negative absorption, posting a loss in occupied space of 120,055 square feet. That followed Q2's loss of 236,635 square feet and Q1's decline of 74,525 square feet. However, suburban submarkets posted three consecutive quarterly gains in the same time period, totaling nearly 1.9 million square feet.

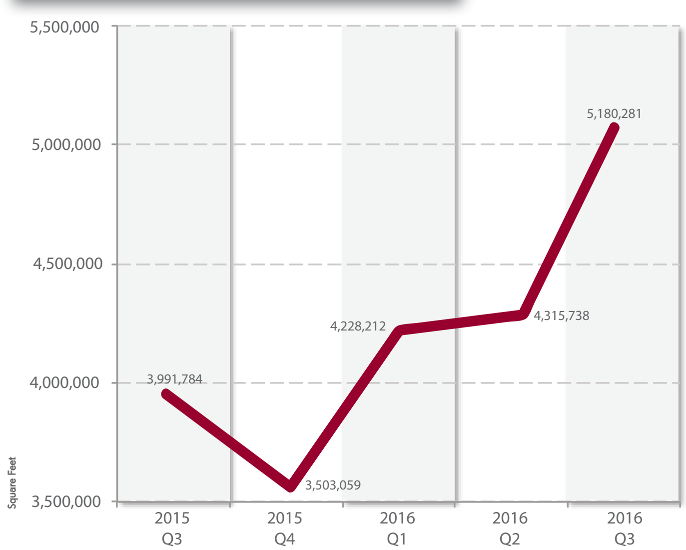
Average asking rental rates for all building classes slipped $.14 in Q3, ending the period at $24.94. Despite that decline, rents across all building classes are up on a year-over-year basis by $.87 per square foot. However, Class A rents moved sharply lower in Q3, shedding $.61 to end the period at $29.30. That wiped out three straight quarters of increases and led to a year-over-year decline of $.16. Class B rents continued to move higher, adding another $.14 to end Q3 at $22.24, up $1.24 in the past four quarters.

Vacancy moved up by 30 basis points to 9.6% in Q3. Class A vacancy in the CBD was highest at 12.8%, while the combined Class C market posted the lowest vacancy rate of just 4.2%. The rise in sublease inventory is becoming more of a problem in terms of vacancy, and that is compounded by the high levels of construction activity. By the end of Q3, over 1.3 million square feet of new office space had been delivered in 2016, and another 5.2 million square feet was still in the construction pipeline, raising concerns of a more chronic rise in vacancy in 2017. The largest project under construction is the 670,000-square-foot building at 1144 15th St, and that building is only 5% committed.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

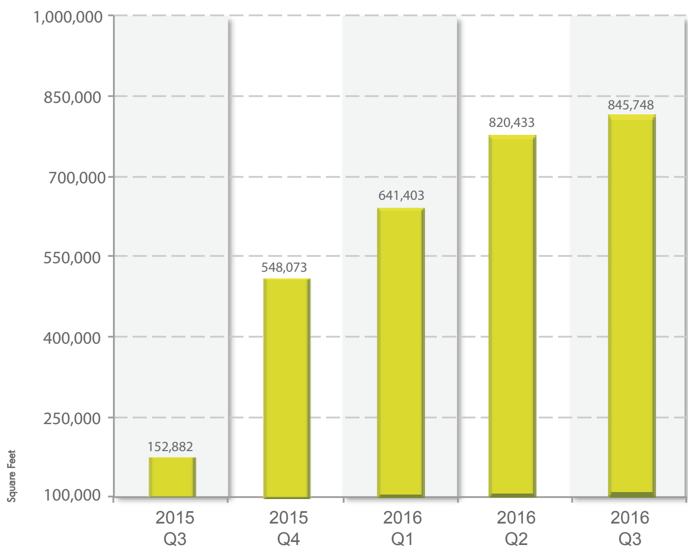


A LOOK AHEAD

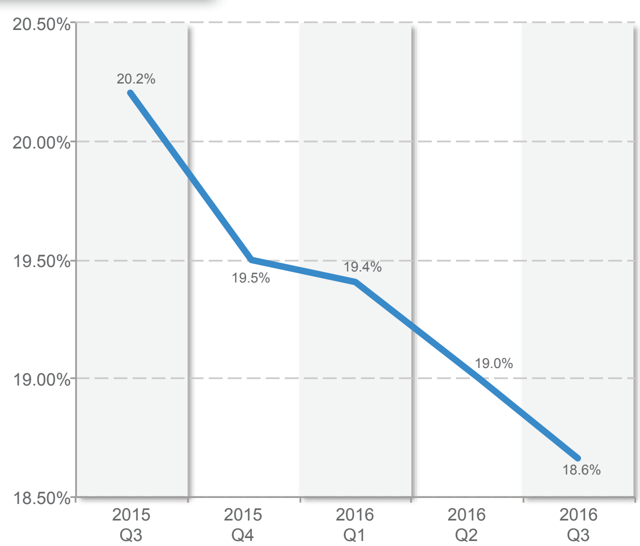
- Leasing activity will slow to more normal levels in 2017
- Lease rates have plateaued, at least until the energy sector rebounds
- Vacancy will keep moving higher in the next several quarters
- Job creation in the tech and business services will keep job growth in positive territory
- Strong millennial population growth will boost the Denver economy over the long term
- Construction will slow substantially until current pipeline of new buildings lease up

PHOENIX

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The maturing Phoenix office market continues its upward path, posting strong gains in most key metrics. On its proverbial heals just four years ago, the office sector has rebounded steadily to erase the losses seen in the past downturn when over 19 million square feet of office space was developed. Over 9 million square feet of that total, was delivered in 2007-2008, just when the market began its freefall. It took until 2014 to show strong enough absorption figures to mitigate the impact of all that construction. When the Great Recession hit, the "sky-is-falling" crowd said the office sector would never recover its former glory. We haven't yet seen the level of leasing activity that dominated the market before the downturn, but what we have seen is a renaissance in the sector and a shift to a different dynamic with new metrics on what defines a healthy market, including new, innovative workplace strategies.

The old methodology for determining space requirements has been completely re-engineered. New business sectors like tech and creative services, just don't use space like the traditional office users of the past. A sea of cubicles surrounded by plush window offices, once the most popular of office layouts, is a thing of the past. Today's growing companies are seeking younger workers who have a different idea of what a productive workplace should be. Bright colors, natural light and open space trump the need for privacy, and new mobile technologies allow workers to be productive without being tethered to a desk. Additionally, what constitutes office space can now be found in a restored warehouse, church or former big box retail store. The opportunities in today's market are boundless and offer both traditional and non-traditional users a choice of work environments.

18.6%	$24.19	845,748	86,036,637	2,913,754
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

PHOENIX - TRENDING NOW (continued)

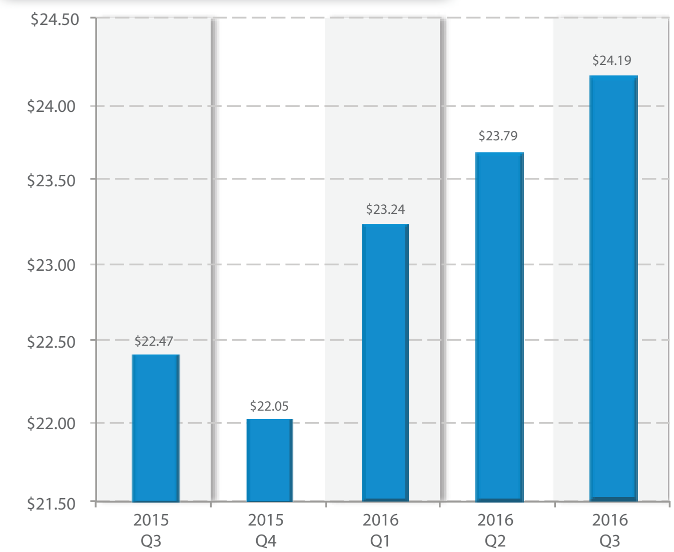
The Valley's office sector posted a 40-basis point vacancy drop from Q2 to end the quarter at 18.6%, the lowest rate recorded since the first quarter of 2008. That's over eight straight years of improving health for the sector. Absorption was on pace with last quarter's figures, showing slight improvement to 845,748 square feet. That brings year-to-date absorption up to 2,165,062 square feet. If lease activity is strong in the fourth quarter, the office sector should set a record for yearly net absorption going back to 2006.

Average asking rental rates, rose by 1.6% for the second straight quarter. Submarkets showing the greatest increases are South Scottsdale at 5.6% followed by Arrowhead at 4.9% and Downtown Phoenix at 4.1%.

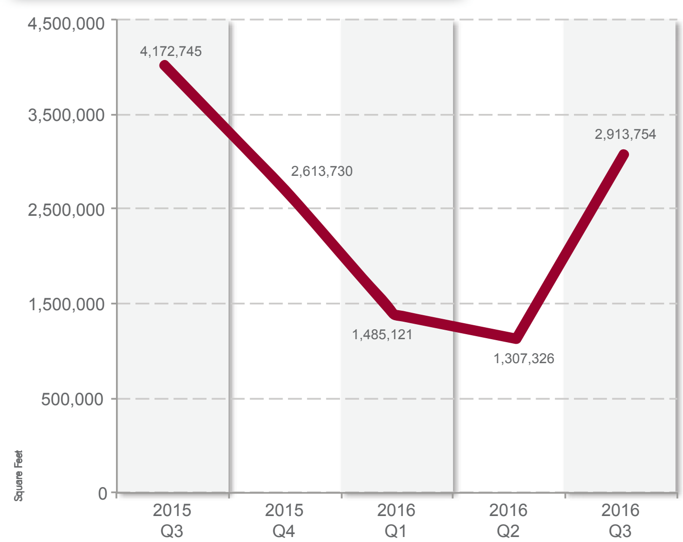
Construction activity rose to nearly 2 million square feet during Q3. The Tempe submarket leads all others with nearly half the total at 909,191 square feet. Significant new projects are also under way in the Downtown Phoenix, Scottsdale South, Chandler and Scottsdale Airport submarkets. Deliveries for the quarter included two built-to-suit buildings (State Farm's Marina Heights-Building A and Arizona DES) and one spec building (Liberty Center III) for a total of 585,777 square feet.

In the largest lease transaction for the quarter, Carvana took 135,663 square feet at Liberty Center, 1930 W. Rio Salado Pkwy In Tempe. The top sales transaction for the quarter was Crown Realty's $40.4 million purchase of Four Gateway at 444 N. 44th St. in Phoenix.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

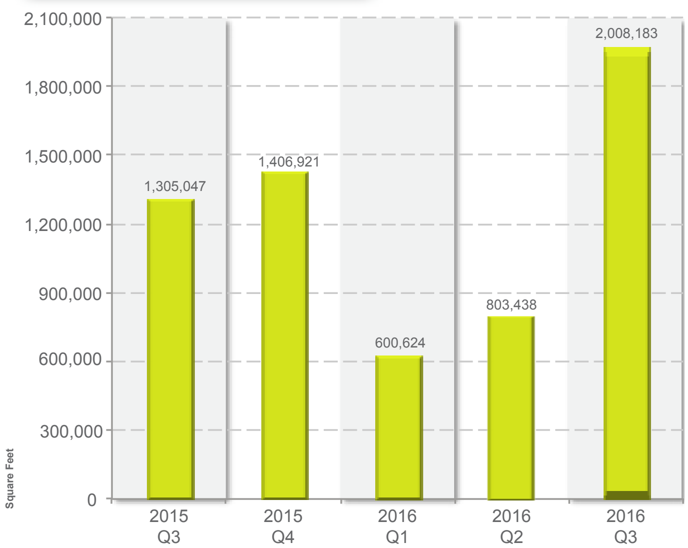


A LOOK AHEAD

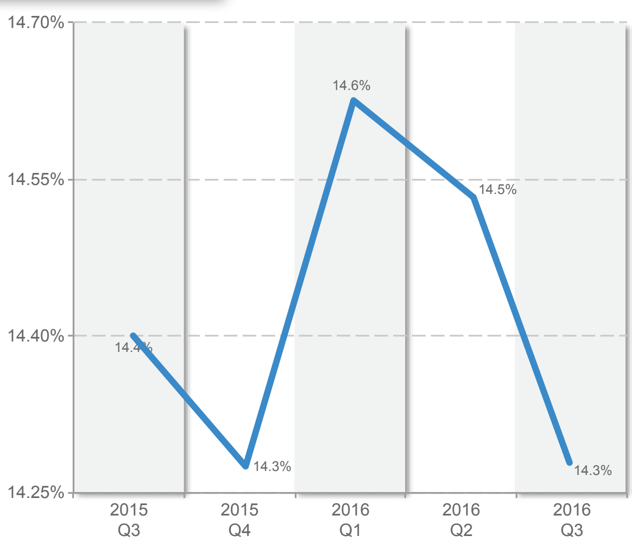
- Leasing activity should remain strong heading into 2017
- Net Absorption will remain strong for the next several quarters
- Former retail, flex and office building renovations will continue to increase as they are converted to mostly back office
- Built-to-suit suburban corporate campus-style developments and back office/flex construction will continue to lead office construction
- Creative/tech space in key urban submarkets top choices for companies luring millennials
- Rents should remain on current trajectory of moderate and steady gains

DALLAS/FT WORTH

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

It's no surprise that the Dallas/Fort Worth (DFW) economy continues to outperform other major markets that are restricted by a lack of land, affordable housing and regulatory restraints. DFW's population is growing by more than 360 people every day. Many of them have the education and skills that expanding companies are looking for. That is why large corporate users like Toyota, Liberty Mutual and JP Morgan Chase and others keep choosing the area for long term expansion. With land for growth available in all directions, there is room for businesses to expand without leaving the area. The region also has an active housing market that offers a wide variety of affordable housing to accommodate the rise in population. Add the business friendly environment fostered by the state and local governments and it's easy to see why the area is doing so well.

Office vacancy has been steady due to periodic delivery of new office product. In Q3, the vacancy rate fell by 20 basis points to 14.3% after a similar decline in Q2, but is still just 50 basis points lower than it was at the beginning of 2015. Construction activity has been and remain very strong. Over 11.8 million square feet of office space was in the construction queue as the quarter ended. Deliveries for Q3 totaled 1,729,349 square feet. In all, the region added almost 6.2 million square feet of new office space in the past year. Fortunately, more than a third of the space coming on line is preleased.

Net absorption topped 2 million square feet in Q3. By building type, Class A contributed 1.75 million square feet to the total. By area, it was the suburban submarkets, where the biggest corporations are locating, that accounted for almost all the net absorption for the period. The CBD recorded just 36,063 square feet in Q3, and that came after two consecutive declines of

14.3%	$24.08	2,008,183	357,715,902	11,802,715
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

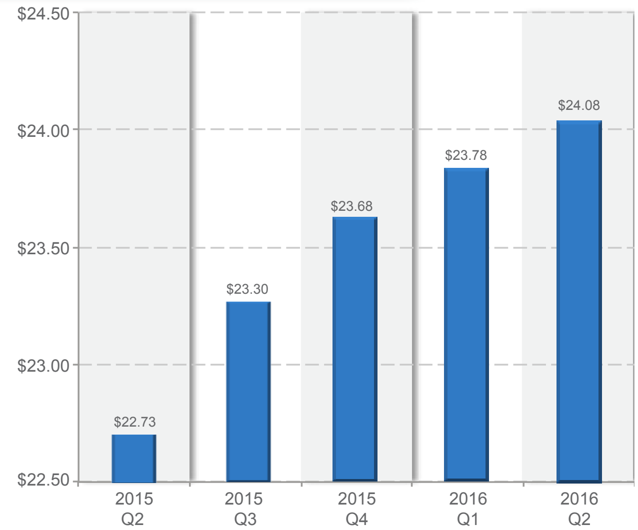
DALLAS/FT WORTH - TRENDING NOW (continued)

273,631 square feet in Q2 and 456,519 square feet in Q1. Suburban Class B space continues to benefit from the "herd effect," whereby smaller employers who service big corporations locate near their biggest customers. Big moves taking place in 2016 include State Farms 500,000-square-foot move into Building D of its corporate campus, RealPage Inc's move into 400,000 square feet at 2201 Lakeside Blvd and Alcatel-Lucent's 250,000-square-foot move into its regional headquarters.

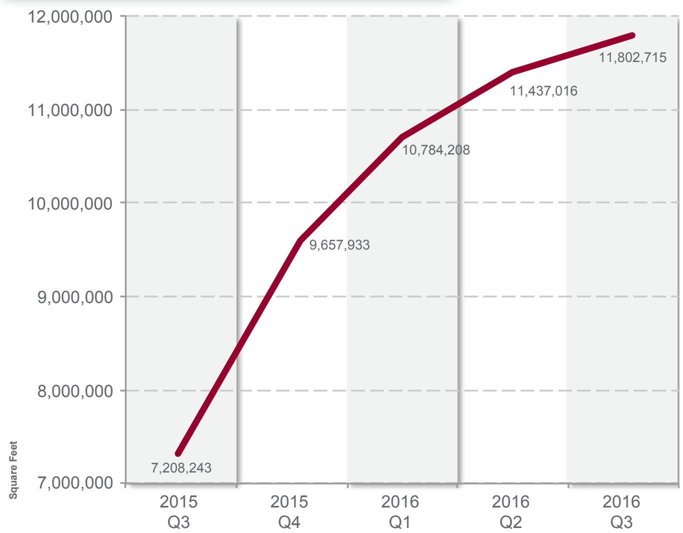
Overall asking rental rates across all building classes keep heading up, with Q2 posting another increase of $.32 to end the period at $24.08. Class A rents for the quarter moved up $.25 to $27.87, and Class B also a nice gain of $.30 to a new high of $20.77. Despite those gains, savvy landlords know that with such high levels of new construction, competition to secure quality tenants is likely to toughen up. So, they are willing to negotiate on rate and improvements to secure longer term leases as hedge to a potential correction in the next few years.

Tenants who see that same potential for a market slowdown are pushing for shorter leases so they can take advantage of lower occupancy down the road. However, there is no sign of a significant slowdown based on current market conditions. They are also looking more at nearby amenities and architectural elements of properties more than they have in the past. They recognize the need to cater to the young and growing millennial workforce, which now outnumbers the baby boomer generation. Millennials are looking for a different workplace experience that offers them freedom to move about and be more productive without being tethered to a cubicle hardwired to a desktop computer. Advances in mobile communication and computing are transforming the work environment and tenants are responding by leasing space with more open floor plans, natural light and informal common areas.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

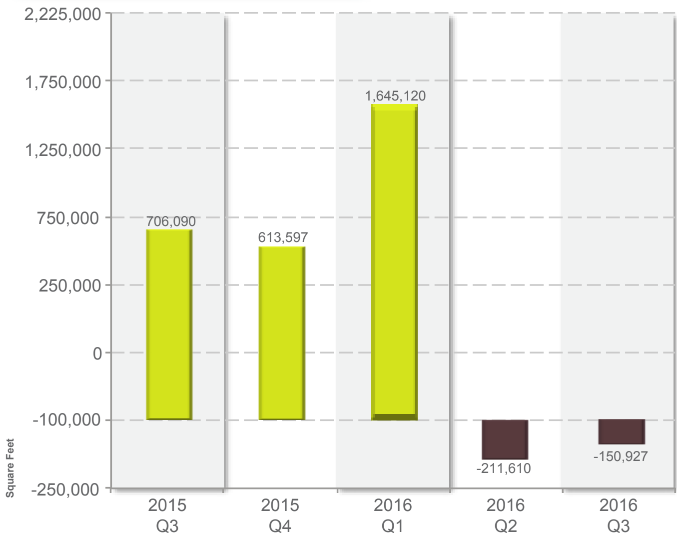


A LOOK AHEAD

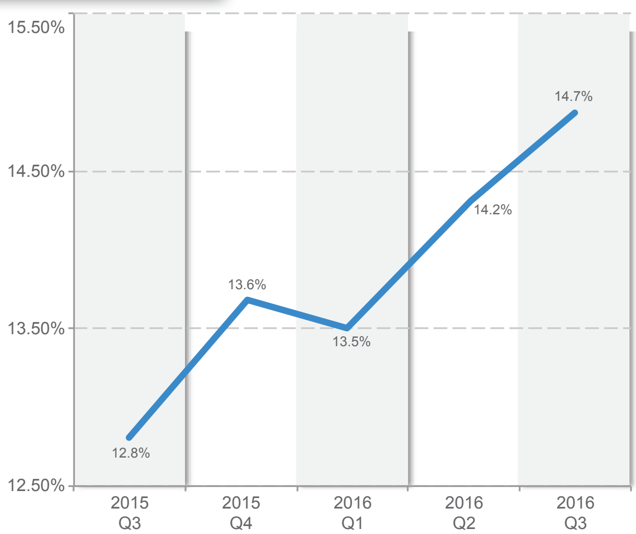
- Leasing activity will remain at current levels as tenants migrate to new buildings
- Net absorption will steadily increase through Q4 and into 2017
- Vacancy will decline slowly due to high level of new deliveries
- Landlords and tenants will dig in on length of lease term, as both hedge for a correction
- Average asking lease rates will increase to the $26 to $29 range
- Another 8.5 million square feet will start construction in the next 6 months, increasing the risk of overbuilding in the event of an unexpected economic shock

HOUSTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The uncertainty going into Year 3 of the energy slowdown, has the entire energy sector and Houston, in particular, feeling the pain. Though the price of oil did make modest gains in Q3, it did little to change the dynamics of the industry. Several rounds of layoffs have driven Houston's unemployment rate well above the national rate. Shell Oil gained media attention when it announced its intention to put its entire space Downtown, nearly 800,000 square feet, up for sublease.

Perhaps the biggest story in terms of the office market is the proliferation of space offered for sublease. Currently, there is 12.6 million square feet of sublease space and more is expected to hit the market in the coming quarters. Over 7 million square feet of that total is in the Energy Corridor and Westchase. ConocoPhillips put the entire Energy Center 4 building at 925 Eldridge, 596,000 square feet, up for sublease in Q3. The building has never been occupied and all 22 floors are in shell condition.

The CBD looks more resilient on paper than it does in reality. Vacancy is currently at 13.8% for Class A space there, which is not particularly high compared to some of the suburban markets in the Houston area. However, a closer look at all space including vacant, sublease and occupied but available, shows that upwards of 22.7% of the Class A office space downtown is available. Class A suburban buildings are seeing large blocks of existing space become available as major corporations like BHP Billiton, Marathon Oil and others consolidate and downsize to trim occupancy costs. Landlords, thus far, have been able to hold the line on lease rates, but have been forced to increase concessions, add building amenities and settle for shorter lease terms.

14.7%	$27.69	(150,927)	304,382,325	3,917,542
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

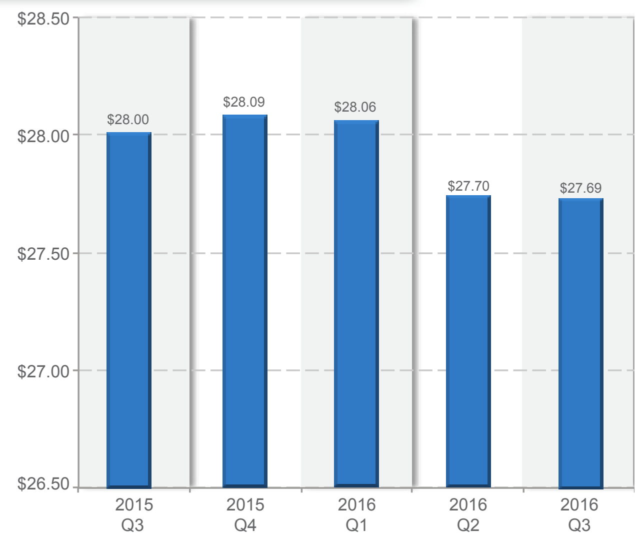
HOUSTON - TRENDING NOW (continued)

Sublease activity is accounting for roughly of a third of all leasing activity, which complicates the challenges already being faced by landlords of direct space. However, all the bad news from the product side is good news for non-energy sector tenants who are being pursued aggressively with offers of lower rent, shorter lease terms, generous tenant improvement allowances and even short lease terms. But, tenants have so many options to consider that transactions are taking longer to complete, causing further pain to building owners and sub-lessors.

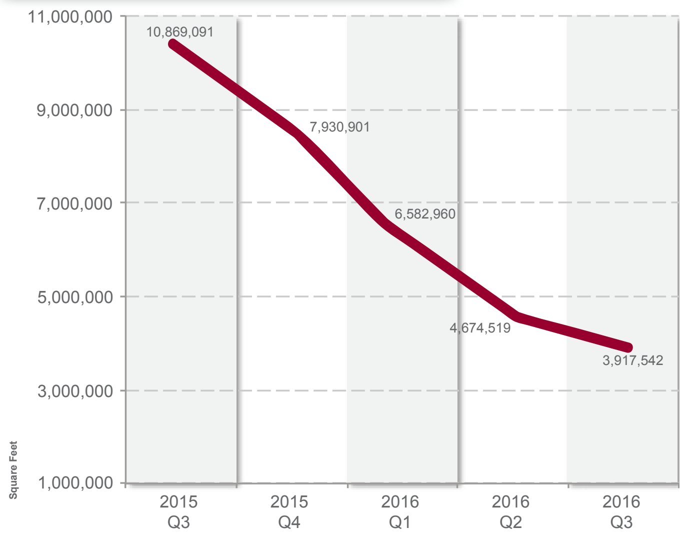
With all the upset in the energy sector, the overall average asking rental rate has not fallen as much as might be expected. In Q3, the overall rate across all building classes only slipped a penny to $27.69. The Class A rate slipped again for the period, losing another $.22 to $33.75, while the Class B asking rate managed a $.03 gain to end Q3 at $21.42. Net absorption was in negative territory again in Q3, declining by 151,000 square feet following an occupancy loss of 211,600 square feet in Q2. Yet, net absorption is still a positive 1.28 million square feet year-to-date. This positive absorption was due to leases signed earlier and now occupaying. Unfortunately, a significant portion of the net absorption total over the past year, may soon find its way into sublease inventory.

Over 3.9 million square feet of office space, most of it spec, is still under construction. New projects are on hold and probably will be until at least another 10 million square feet in net absorption brings the market back into reasonable balance, which takes up to five years.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

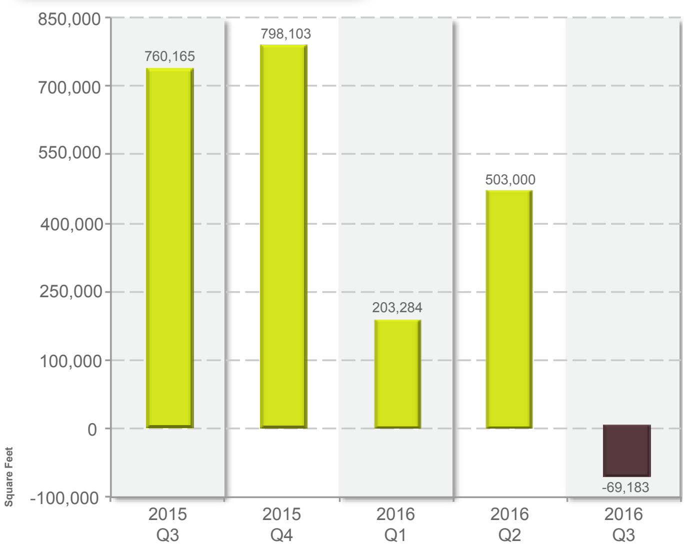


A LOOK AHEAD

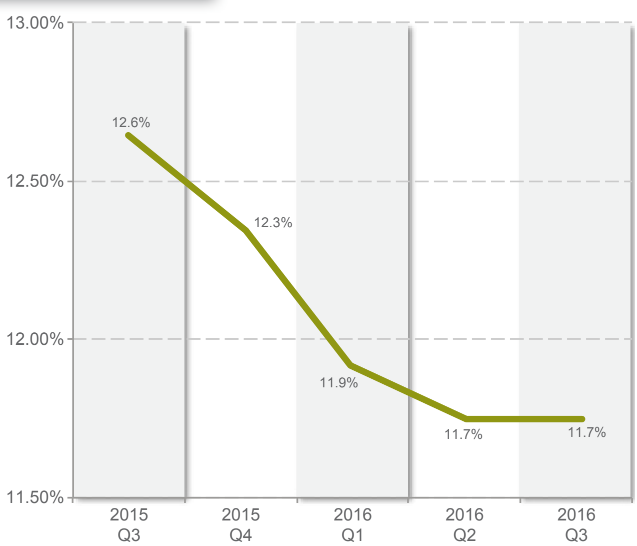
- Net absorption will decline for the next several quarterss
- Vacancy will keep moving higher as more sublease space is added to available inventory
- Asking rental rates will decrease slightly, but effective rates will be sharply lower due to bigger concession packages
- Leasing demand from non-energy sector will not keep up with expanding suppl
- Vacancy will drift up, but vary significantly by submarket
- Houston will be overbuilt for the foreseeable future

COLUMBUS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The local economy in Columbus, Ohio remains strong and is known for its remarkable consistency and balance. No one business sector accounts for more than 18% of overall economic activity. In 2015, the region ranked fifth amongst US markets in attracting new and expanded corporate facilities users. With its central location, access to Interstate highways and inland ports, and a population of over 2 million residents, Columbus is the fastest growing metro area in the Midwest. Expanding companies are attracted by one of the nation's highest concentration of young, talented workers. There are 62 colleges and universities in the Columbus region, making it second only to the Boston area in terms of concentration of college students.

Many office submarkets are seeing vacancy rates move lower, giving landlords the opportunity to push lease rates higher. But it's the Downtown Columbus submarket that is garnering most of the attention. The residential population has increased by almost 35% since 2008, pushing apartment occupancy rates to 96%. Growing companies have responded by choosing downtown to expand their operations. To attract and retain younger workers who have the skills they need, they are opting for more creative space designs. This has put the pressure on suburban property owners, who can do little to stop the re-urbanization phenomenon that has been sweeping the nation over the last several years. A prime example of this trend is Nationwide Insurance's decision to lease a 373,000 square foot facility in the Grandview Yard complex close to downtown. Over 3,000 people will occupy the new facility.

While gains in occupied space have been positive for several years, net absorption has slowed in the past two quarters. In Q2, just 1,377 square feet of net absorption was recorded and Q3 posted negative absorption of 69,183 square feet to paring the year-to-date net

11.7%	$21.24	(69,183)	31,998,350	300,000
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

COLUMBUS - TRENDING NOW
(continued)

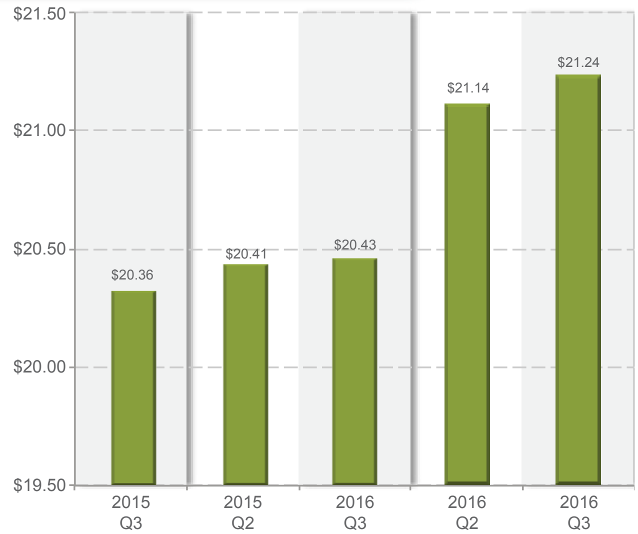
gain to just 224,300 square feet. The CBD and Capitol Square submarkets posted the biggest declines in Q3, at 64,454 square feet and 68,952 square feet respectively.

Overall, the vacancy rate was unchanged at 11.7%. A year ago, vacancy stood at 12.2%. Vacancy is lowest in Class A properties at 9.5%, but that represents a 30 basis point increase for the quarter. Class B vacancy declined by 10 basis points in Q3, settling at 13.5%. In terms of the larger submarkets, vacancy is highest in the Northeast at 15.1%. Despite three quarters of relatively flat rent growth, the overall average lease rate managed a $1.00 increase to finish Q3 at $21.24. Capitol Square, Class A properties posted the highest asking rate of $31.20.

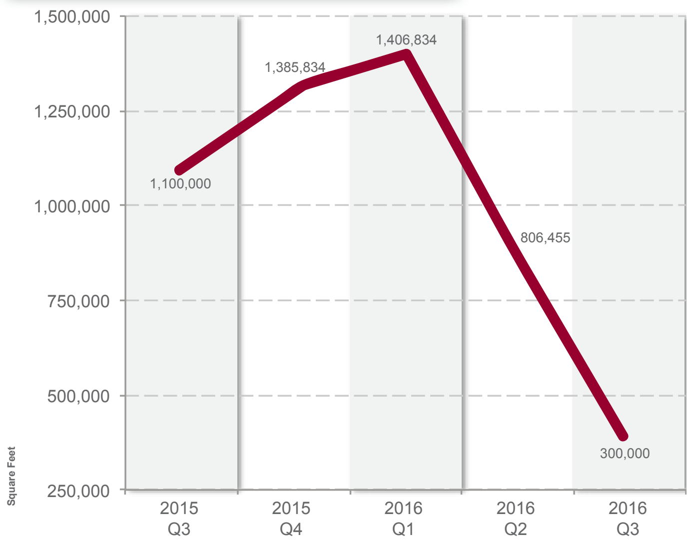
The Easton and New Albany areas are the most active in terms of construction, with 240,000 square feet and 75,000 square feet, respectively. Developers are still bullish on ground up development and redevelopment projects downtown, where they can take advantage of 100% property tax abatements for up to 15 years. Companies that have already made big moves to the downtown area include ODW Logistics, Aver Informaties, CoverMyMeds and Cross Chx.

Though the Columbus office market produced mixed results for the quarter, the general economy is moving in the right direction. The unemployment rate stands at just 4.0%, well under the state and national rates. Further declines are forecast for 2017. The tech industry is taking notice of the Columbus, which was just recognized as the top city in its class for its ability to attract and grow tech talent.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

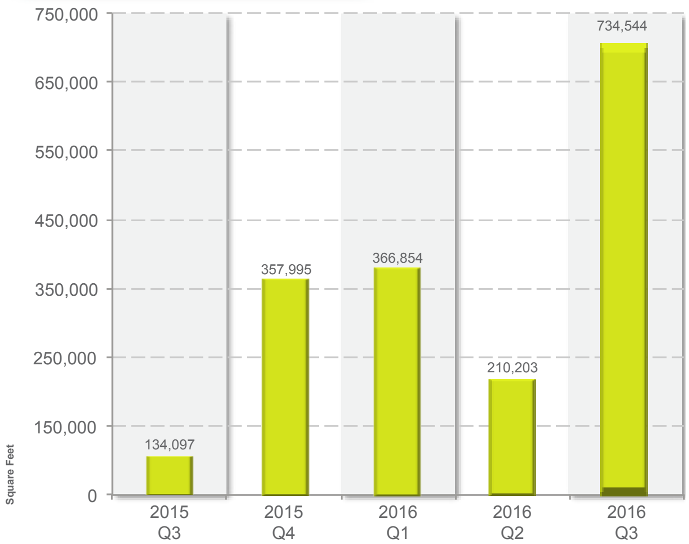


A LOOK AHEAD

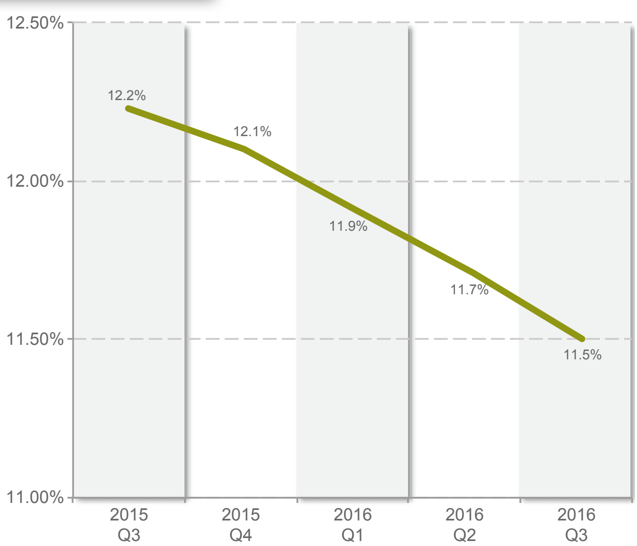
- Leasing activity will moderate heading into 2017, as the availability of quality space is limited in the CBD
- Net absorption will be light as existing space is vacated due to new deliveries
- New deliveries could push the vacancy rate higher in the near term
- Average asking lease rates will move slightly higher due to delivery of first generation space
- Owner/user sales prices will keep setting new record highs due to lack of supply
- Construction activity will increase as several mixed-use projects downtown get underway by the end of the year

CLEVELAND

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Cleveland office market is driven by strong demand from the legal, accounting, engineering, insurance and financial sectors. The area is known for its relatively low cost, high standard of living, which is keeping young people in Cleveland. Cleveland is also home to the Cleveland Clinic, one of the nation's largest leading hospitals, known for its cutting edge medical research and high level of patient care. Total base inventory of office buildings includes over 145.5 million square feet across all building classes. Class B is the largest component of that total at 74 million square feet. Another 44. 7 million square feet is designated as Class C, while 26.7 million square feet is considered as Class A.

Overall vacancy is trending down. In Q3, the overall vacancy rate fell 20 basis points to 11.5%. A year ago, vacancy was 70 basis points higher. Class A vacancy is down to 9.9%, but Class B is somewhat higher, posting a rate of 12.6%, unchanged in the period. Suburban submarkets, by comparison, saw vacancy decline by 30 basis points to 9.0%.

Significant transactions contributing to the fall in vacancy include a 180,000-square-foot lease to Summit County DJFS at the Triangle Building and Baker, and Hostetler LLP's 115,615-square-foot lease at Key Center Tower.

Net absorption got a boost in Q3, posting its highest total in the past year at 734,544 square feet, largely due to the delivery and full occupancy of a 601,111-square-foot building, owned and occupied by American Greetings Creative Studios. Net growth in occupied space year-to-date reached 1,311,000 square feet through the first nine months. Nearly 60% of that total occurred in Class A properties.

11.5%	$17.18	734,544	145,560,230	601,111
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▲	▲	▼

CLEVELAND - TRENDING NOW
(continued)

Average asking lease rates have moved up on six of the past seven quarters. In Q3, the overall asking rate rose by $.25 to at $17.18, and is now above the pre-recession peak of $16.57 back in 2007. Class A average rent now stands at $22.47, up a notable $.77 for the period, mainly due to higher asking rates in projects under construction. The highest asking rent is in the Chagrin Corridor at $29.65, where 247,000 square feet of new Class A space is underway in three buildings.

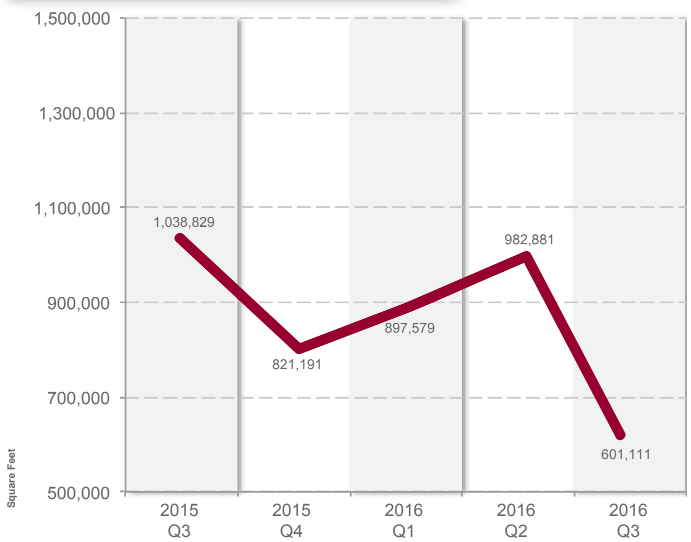
While the market seems ripe for a spike in new construction, today's construction costs are too high for developers to achieve reasonable returns given current lease rates. Though, there is a trend to redevelop outdated Class A office buildings in the CBD into multi-family housing and that has tightened the availability of office space to the point that further office development there becomes likely in the near term. Year-to-date over 720,000 square feet of new space has been delivered and another 601,000 square feet is still under construction.

Those tightening conditions are causing trouble for tenants currently looking for good quality space, which has prompted a flurry of in-place lease renewals. Blend and extend renewals have become particularly popular with larger tenants that have the fewest options.

The market for office investment properties in the Cleveland area is much different than in other major markets around the country. The severe cap rate compression that has occurred over the past several years is much less severe in Cleveland. Cap rates for office properties are in the 8.0% to 9.5%, rather than the 4% to 6% rates seen elsewhere.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

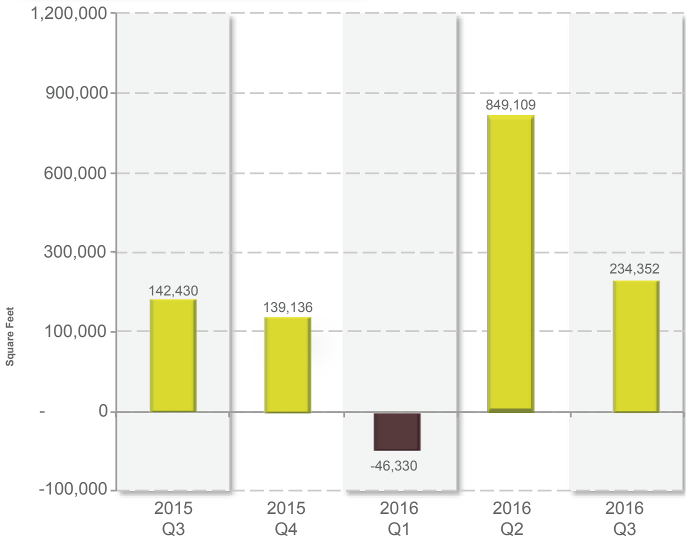


A LOOK AHEAD

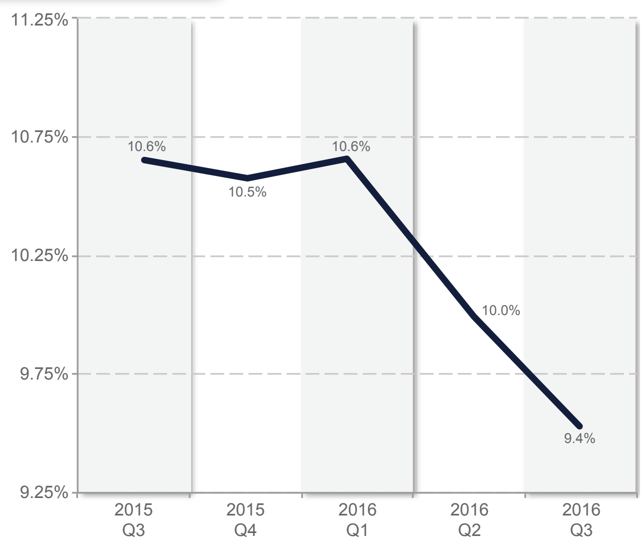
- Overall activity should remain at current pace into next year
- Transactions in the pipeline will ensure positive net absorption into 2017
- Rent growth will flatten out after almost two years of quarterly gains
- Construction in the CBD could spike in 2017, if projects in the planning stage move ahead in 2017
- Vacancy will decline into the 10% range in 2017
- Sales prices will trade at record prices for the region in the next 6 to 12 months, but cap rates will remain well above those in other major markets

ST. LOUIS

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Supply and demand in the St. Louis office market remain in relative balance, but that has led to limited rent growth, tepid net absorption and a slow decline in vacancy. 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 St Louis employment base continues to expand faster than the national rate.

Net absorption performance has directly benefited from the improved regional economy. In Q3, another 234,352 square feet of positive absorption was recorded. Interestingly, Class C was the big performer for the quarter, posting over 174,000 square feet of the total. Class B accounted for just 49,242 square feet of that total, while the Class A net gain was a disappointing 8,705 square feet, after posting a gain of 274,840 square feet in Q2 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 include Centene's 61,816-square-foot lease at 1350 Timberlake Manor Pkwy, and Nestle Purina Petcare's 43,517-square-foot space at 100 N Broadway.

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 Q3, one building totaling 60,000 square feet of space was completed, bringing year-to-

9.4%	$18.06	234,352	130,911,572	1,207,658
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

ST. LOUIS - TRENDING NOW
(continued)

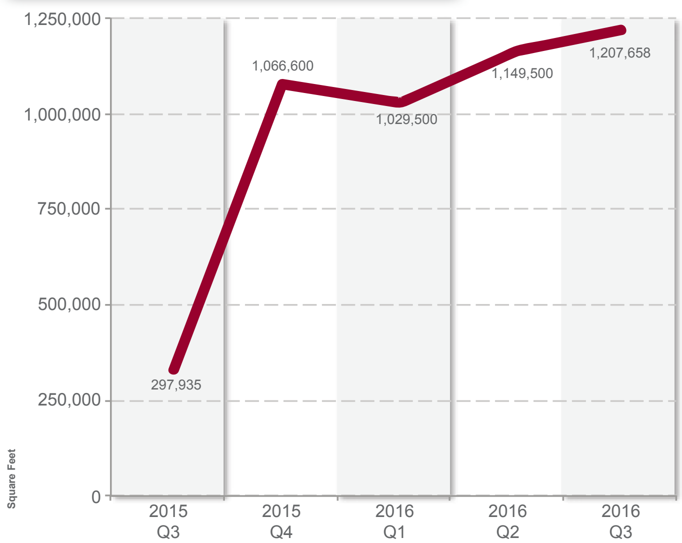
date completions to a modest total of 122,100 square feet. Another 1.2 million square feet is under construction including a 210,000-square-foot office headquarters building for World Wide Technologies, and the BJC and Washington University Office Tower, a 510,000 square foot building. Both projects are 100% committed.

The overall vacancy rate for the region fell 10 basis points in Q3 to 9.4%, but has declined by 100 basis points since the first quarter. Class A vacancy ticked up slightly to 8.1% in Q3, but is down 60 basis points since the end of Q1. Class B vacancy was unchanged for the quarter at 11.4%, but has also fallen substantially since in 2016. These rates are substantially lower than in other major markets around the US and that is limiting options for expanding tenants. This triggered more interest in owner/user sales and has given landlords of quality assets in suburban submarkets the courage to push back on demands for concessions like free rent and tenant improvements.

Steady declines in overall vacancy usually result in rent growth, but that has not been the case for St. Louis recently. Average asking rental rates posted a fourth consecutive decline in Q3 to settle at \$18.06, down \$.08. The Class A asking rate fell another \$.24 to \$21.61 while Class B moved down two pennies to \$16.66. Class C space managed a \$.17 increase to \$14.12. Though suburban office rates have been outperforming suburban areas in recent quarters, the CBD posted a \$.13 increase in Q3, while suburban markets saw \$.12 decline.

AVERAGE SF RENTAL RATES

SF UNDER CONSTRUCTION

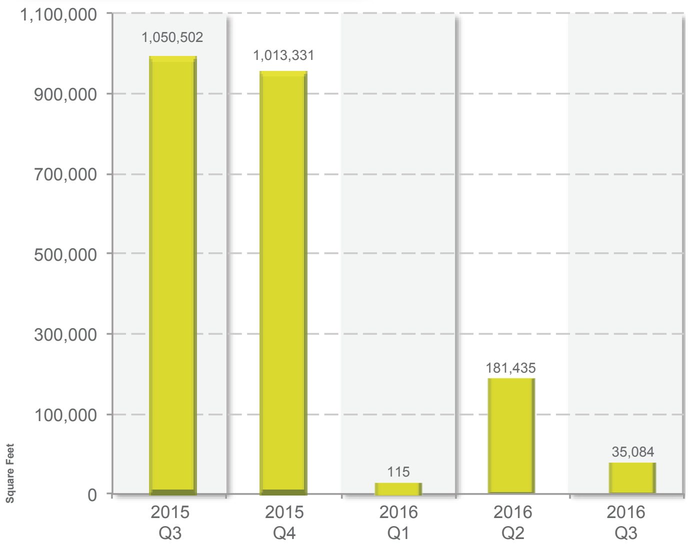


A LOOK AHEAD

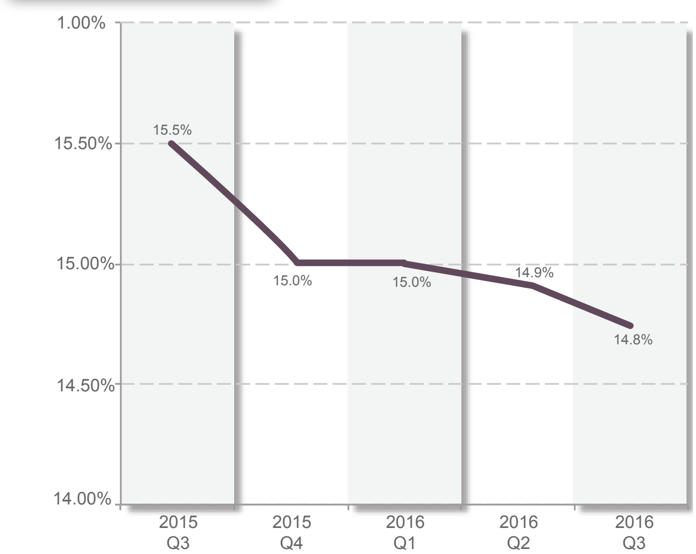
- Leasing activity should remain healthy due to continuing job growth
- Vacancy will continue to decline slowly and steadily
- Absorption will remain positive, but the lack of spec development will limit growth opportunities for expanding tenants
- Rent growth will be strongest in Class A properties, in both suburban and CBD submarkets
- Speculative development will remain on hold until rent growth accelerates
- Growth in the financial services sector will boost office leasing activity

ATLANTA

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

The Atlanta office market, like its overall economy, kept pace in Q3. The region continues to attract young talent to local industry through its proximity to some of the country's finest universities, including nearby Georgia Tech, University of Georgia and the University of Alabama. Gains in employment continue to improve the Atlanta economy and multi-family residential development is driving population growth in urbanized areas, and that is attracting tech and professional services companies to urban locales that are preferred by potential employees who like the live/work/play lifestyle. However, one potential impediment to further growth is rising costs in the construction sector. Employment in the construction industry is at a post-recession high, driving labor costs up and diluting the quality of available labor.

In Q3, Atlanta's office market posted 35,084 square feet of net absorption, bringing the year-to-date total gain in occupied space to 216,634 square feet. Class A absorption led the way in Q3, adding 81,493 square feet to occupied space total, while Class B slipped into negative territory with a 73,799-square-foot loss. Class A buildings in urban cores are seeing the best net absorption, as the flight from the suburbs continues. But, Class A properties are becoming more expensive and that is directing more attention to nearby Class B product that is now being targeted for redevelopment.

The vacancy rate moved lower as a result, falling 10 basis points to 14.8% overall. Class A vacancy stood at 14.3% as the quarter ended, unchanged for the period Class B's vacancy rate of 16.5% was also unchanged from Q2. As the market continues to tighten, landlords

14.8%	$22.91	35,084	303,579,442	4,558,773
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▼	▲	▼	▼	▲

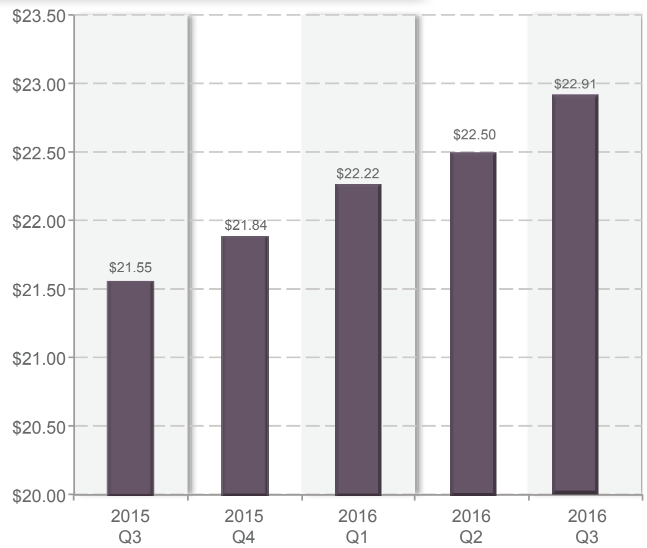
ATLANTA - TRENDING NOW
(continued)

are emboldened to offer less free rent and lower tenant improvement allowances. So, tenants are looking to increase the efficiency of their space by moving to more open floor plans and leveraging the latest in mobile communication technologies.

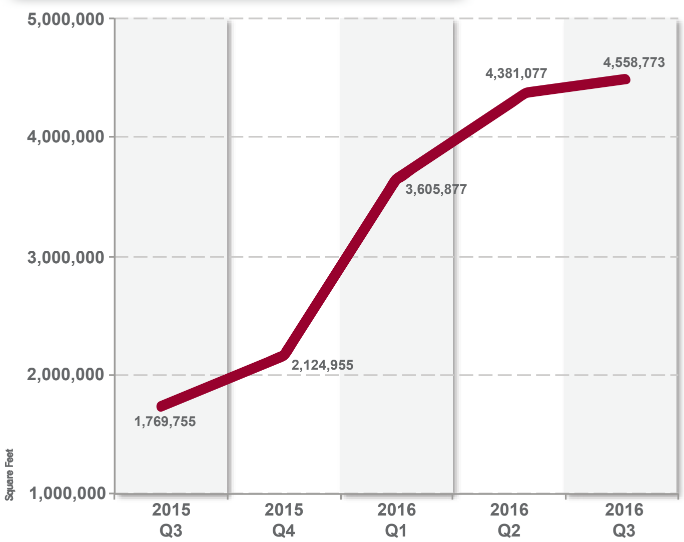
Leasing activity exceeded 2.4 million square feet in Q3, a slight decrease from Q2's total. However, higher rates throughout the region are having a sticker shock effect, especially for those tenants that signed existing leases when rates were much lower. Higher rental rates are making landlords happy, but expansion plans and net absorption in the coming quarters may be negatively impacted. Class B buildings may get a needed boost as a result, as some tenants may shift their focus to lower cost options. Also, developers will likely look to acquire Class B properties for retrofit to increase the "cool" factor through design changes popular with tech sector firms.

Quoted lease rates for all building classes combined moved sharply higher in Q3, rising $.41 to $22.91 per-square-foot. Class A rose by $.40 for the period and $1.49 year-over-year, ending Q3 at $26.50. Tenants continue to pay a premium for Class A properties in Buckhead, Central Perimeter and Midtown submarkets, but it's getting tougher to find quality space even at the highest price points. The Class B asking rental rate rose another $.50 in Q3 to $18.73, but many suburban Class B buildings are still suffering from lower occupancy, and many of them are being targeted for redevelopment.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

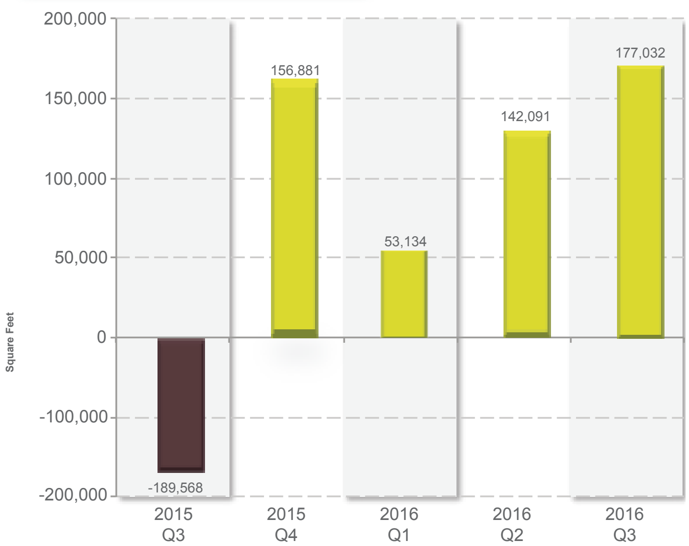


A LOOK AHEAD

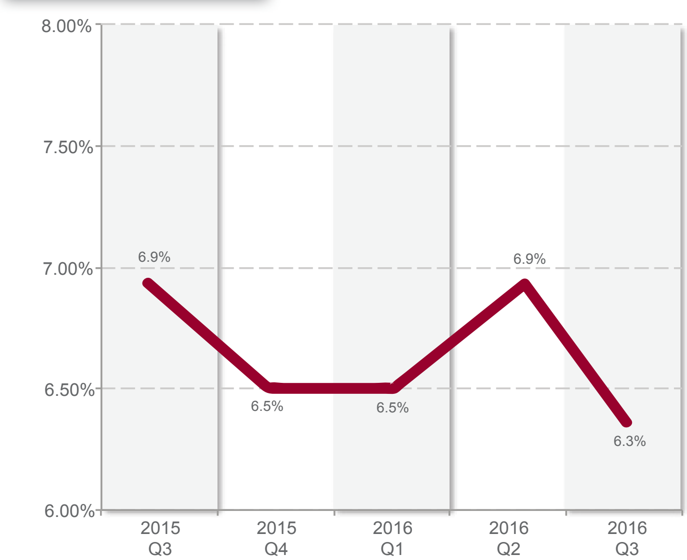
- Rents should stay on the current growth path through 2017
- Net absorption will remain positive overall, but urban core areas will see most of the growth
- Vacancy in Class A will continue to decline, while suburban Class B vacancy will move higher
- Sales prices for well-located product will continue to rise in the next several quarters
- Large tenants will continue to relocate to in-town locations to be in proximity millennial workforce

CHARLESTON

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

2016 has already been quite a year to remember for Charleston, South Carolina. Site Selection Magazine named South Carolina the "Second Best Business Climate;" U.S. News and World Report ranked Charleston the 19th best place to live based on quality of life and job opportunity; and just recently, Travel and Leisure Magazine readers voted Charleston No. 1 in its "Best City in the World" survey.

Charleston's economy is seeing record growth in virtually every measurable area, leading the Southeast in job creation. In addition, the tri-county region is gaining population at a rate of 48 people per day. All commercial sectors remain strong and show little signs of slowing down. The region's growing professional, technical and life sciences sectors are the focus of city's economic development efforts due to the potential of high-wage job growth.

The inventory of office space in Charleston ended Q3 at 27,699,101 square feet, up just 3,223 square compared to Q2. Year-to-date new deliveries total 331,746 square feet, but the bulk of that space was preleased and that is keeping the pressure on expanding tenants who have to choose their next locations from existing inventory. Another 406,700 square feet is under construction, but the two largest projects in the queue, the 90,270-square foot Town Hall project and the 80,000-square-foot building at 3450 Ingeside Blvd, are both 100% committed.

As a result of these tight conditions, vacancy has been and remains low. In Q3, the overall vacancy rate fell 60 basis points to 6.3%, but vacancy has been in the 6% range since late 2014. While that indicates a good balance of supply and demand, it is important to note that vacancy is much lower in Charleston than it is in

6.3%	$20.39	177,032	27,699,101	406,070
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

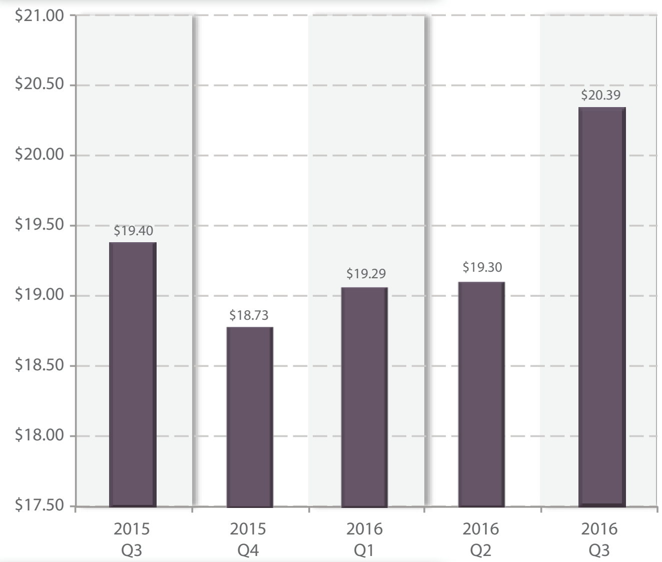
CHARLESTON - TRENDING NOW (continued)

most markets around the country. Nearby Atlanta, one of the nation's hottest markets, has a vacancy rate of 14.8% on an inventory base of nearly 108 million square feet. Clearly, Charleston offers fewer choices to its expanding business base, and that will impact market growth going forward.

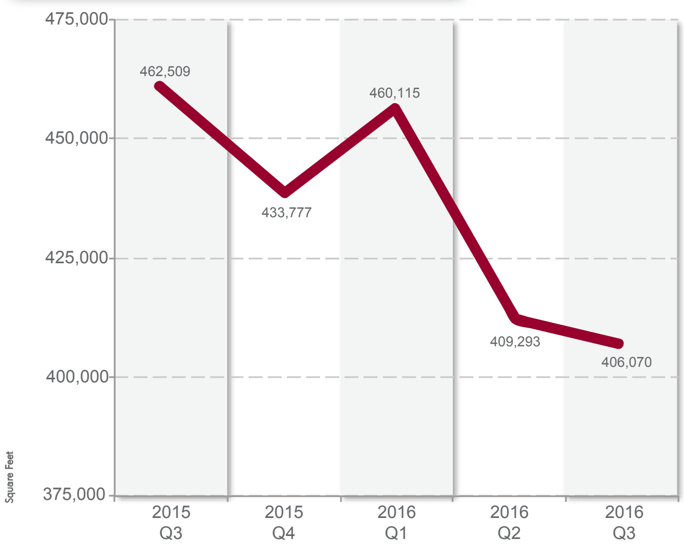
Average asking rental rates jumped much higher in Q3, adding $1.09 to end the quarter at $20.39. That may be an anomaly, however, as rents only rose a penny in Q2, and have reported declines in two of the last seven quarters. This is to be expected in a market with so much activity compared to its relatively small inventory base. In Q3, the big change in asking rents occurred in the Class B market. The asking rate was up $1.27 to $18.63. Class A rents ended Q3 at $27.48, up $.13 for the period.

Occupancy was higher by 177,032 square feet in the third quarter, bringing net absorption in the last four periods up to 529,138 square feet. Over 300,000 square feet of that total has been realized in Class A buildings, even though Class A inventory is roughly a third that of the Class B. Big move-ins contributing to net absorption this year include Roper St. Francis Healthcare's move into 130,000 square feet at 8536 Palmetto Commerce Parkway and the 53,936-square-foot expansion of the Charleston School of Law at 385 Meeting Street.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

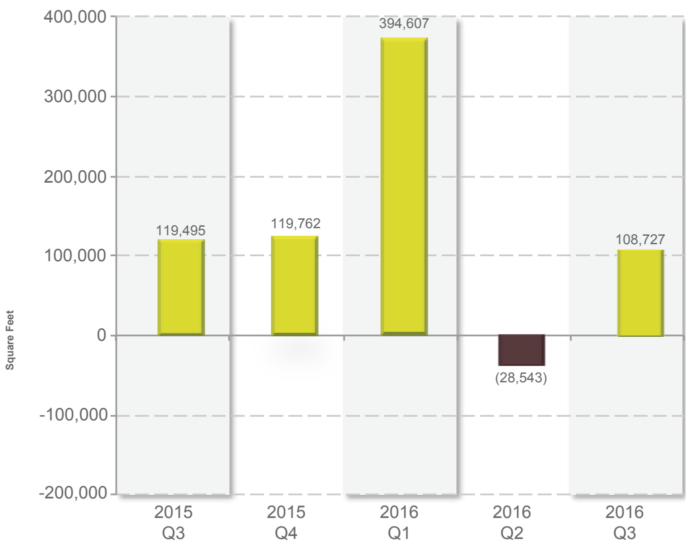


A LOOK AHEAD

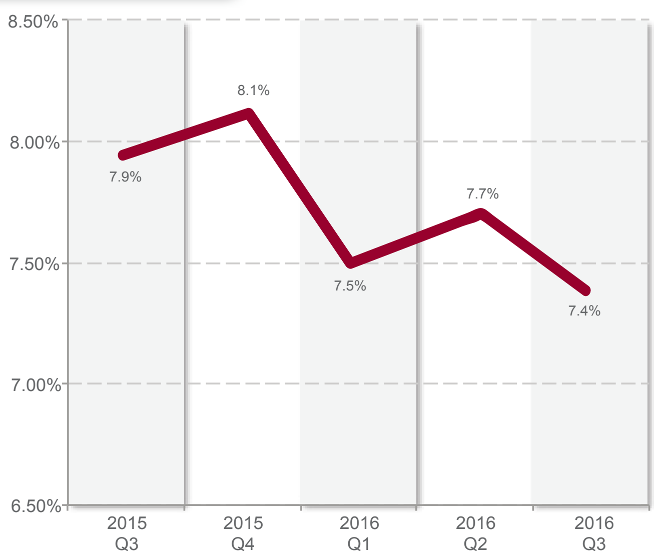
- Leasing activity and net absorption will be restricted by lack of inventory
- Vacancy will remain near current levels as demand will run slightly behind new deliveries
- The new Volvo plant will increase momentum throughout the region
- As new development picks up the pace, rent growth will accelerate

GREENVILLE/SPARTANBURG

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

After a very strong performance in 2015, the Greenville/ Spartanburg office market continues to thrive. The area's well-educated workforce and growing population provide the human resources for a wide variety of business sectors ranging from financial services to R&D. Users large and small like the close proximity to a convenient airport, multiple interstate highways and a renowned quality of life. The region also boasts a mild climate, exceptional healthcare and award-winning schools. Business operating costs are lower than most large metro areas, and wages go further due to an affordable housing market and relatively low cost of living.

Downtown Greenville, with its blend of residential, office and retail space, offers a true live-work-play environment. The CBD will soon be home to another major project on the former Greenville News site. The 4.3 acre parcel will be transformed into a mixed-use, office, hotel, luxury condominium and multi-family project with an on-site parking garage. This signature development is bound to give the CBD another huge boost. The office building component of the project is under construction. Several major moves to Downtown Greenville are expected soon, including 100,000 square feet for ChartSpan and a new headquarters facility for Duke Food Productions.

Net occupancy moved up by 108,727 square feet to get absorption back on track after a negative 25,129-square-foot performance in Q2. That brings the year-to-date gain up to almost 475,000 square feet, on track to surpass 2015's total. But uneven results quarter to quarter are expected given the moderate size of the office base and the periodic influx of larger users. Class A buildings suffered a minor loss of 27,983 square feet in Q3, but that was offset by a strong net gain of more than 179,000 square feet in Class B product. While the

7.4%	$16.02	108,727	37,733,860	376,074
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION

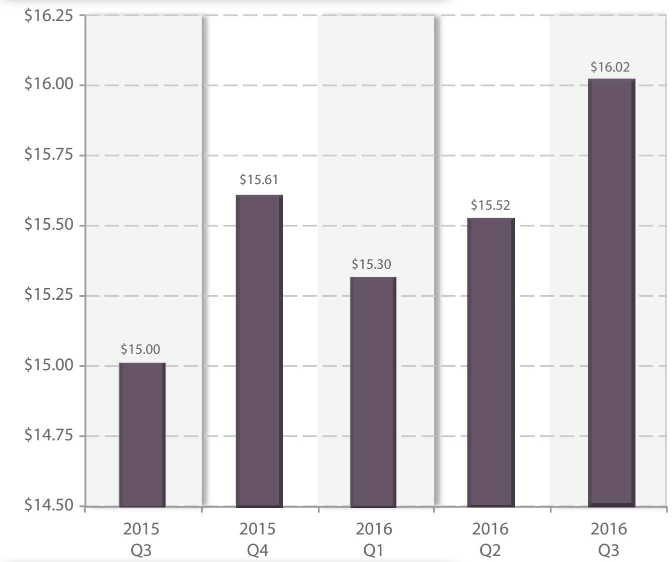
GREENVILLE/SPARTANBURG - TRENDING NOW (continued)

CBD submarkets are seeing an increase in development activity, it's the suburbs that have posted the best absorption numbers. Through the first three quarters, suburban submarkets have recorded 480,000 square feet of net gain in occupied space, while CBD occupancy is essentially unchanged for the year. That imbalance should change as new deliveries in the CBD come on line.

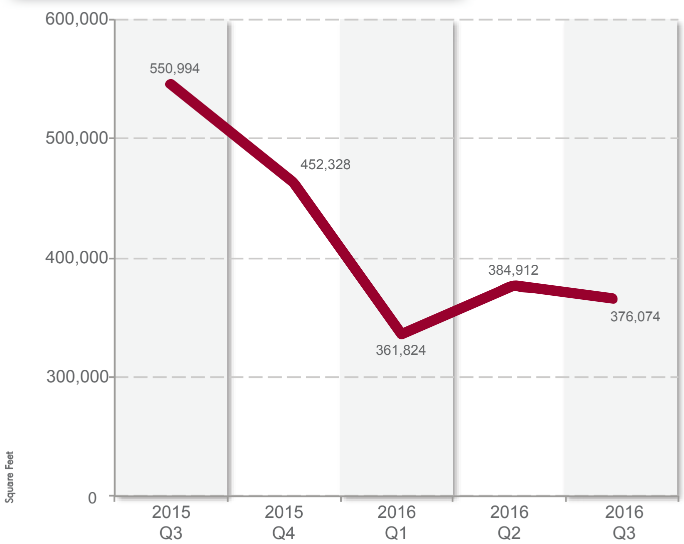
Overall market vacancy ended the quarter at 7.4%, down 30 basis points for the period and 70 basis points since the end of last year. Class A vacancy in Q3 rose by 40 basis points, but is still 190 basis points lower than it was in Q4 of 2015. The average asking rental rate for Class A space during Q3 jumped by $.30 to $22.50, while the Class B rate moved up by $.19 to finish the period at $14.63.

Development activity has stayed in line with net absorption, lessening the risk of overbuilding and hurting rent growth. Over 376,074 square feet of office space remained under construction as Q3 ended, but only 23,238 square feet of new space was delivered. That brings total deliveries for the year up to 249,226 square feet. If the present delivery schedule comes to fruition, 2016 will exceed last year's total of 367,629 square feet. Current projects underway include the New Erwin Penland Building, a 125,000-square-foot project with onsite parking in Downtown Greenville. Preleasing activity stands at 46%. Another 72,000-square-foot building at Falls Park Place, is now 83% pre-leased. Both projects are due to be delivered in the fourth quarter. When completed, those projects will bring the inventory of office space up to 38 million square feet.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

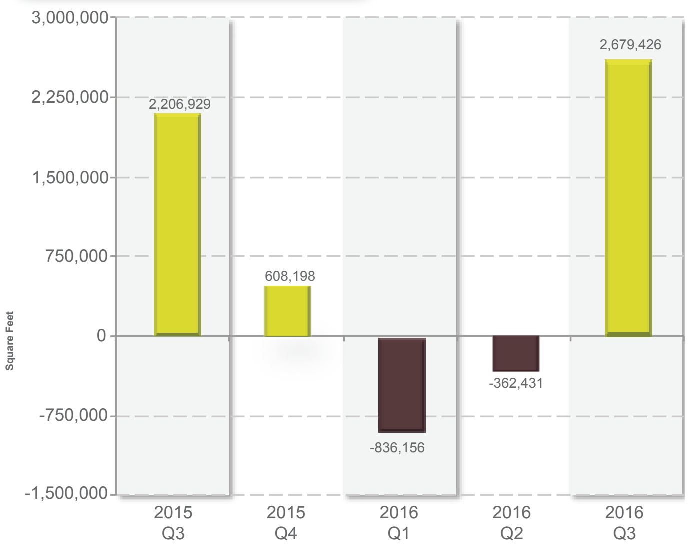


A LOOK AHEAD

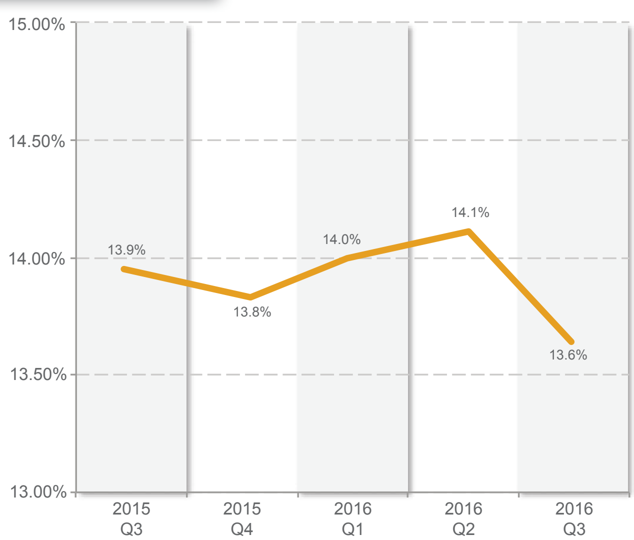
- Leasing activity will continue to move higher heading into 2017
- Net absorption will remain positive overall, but expect significant quarterly swings
- Average asking rental rates will remain steady, as new deliveries are not getting ahead of absorption
- The local economy is expected to grow at its current pace through 2017
- Look for more mixed-use projects, especially in Downtown Greenville
- Vacancy will move down slowly, but will experience near term spikes due to new deliveries

NORTHERN NEW JERSEY

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Northern New Jersey's office market has experienced mixed results in recent years. While the area has long been a favorite of large corporations, the inventory of office properties is aging and construction activity is thin. The unemployment rate has crept up slightly in recent months, and the job losses have been hard on office users, especially those who occupy Class B and Class C space. Operating budgets are tight and many employers have resorted to hiring part time workers to cut exposure to employee benefits, including health care and reducint space requirements. Area businesses have also been looking to cut operating costs by consolidating multiple locations around the state along major commuting corridors and near public transportation hubs. Employers are also increasing the number of employees working remotely to further reduce the need for office space.

As a result of this quest for efficiency, the transit towns are benefitting most, as they offer the access to jobs, cultural and entertainment venues and multi-family housing. Given the shifts in the workforce from boomers to millennials, this is likely to continue. The State of New Jersey has a competitive employer incentive program known as Grow New Jersey, and it has generated results, but more still needs to be done to showcase the region's well-educated workforce and viability as an alternative to New York City.

By the end of Q3, the overall average asking rental rate slipped two pennies to finish the period at $24.73. Class A rents, though, increased by $.21 to $28.28, while the rate for Class B decreased by $.35 to $21.97. Class C rents fell three cents to $19.84. However, the suburban markets are faring worse in all building classes, as those areas are farther from public transportation and the concentration of amenities preferred by today's younger workers.

13.6%	$24.73	2,679,426	364,644,134	1,356,664
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	SF INVENTORY	SF UNDER CONSTRUCTION
▼	▼	▲	▲	▼

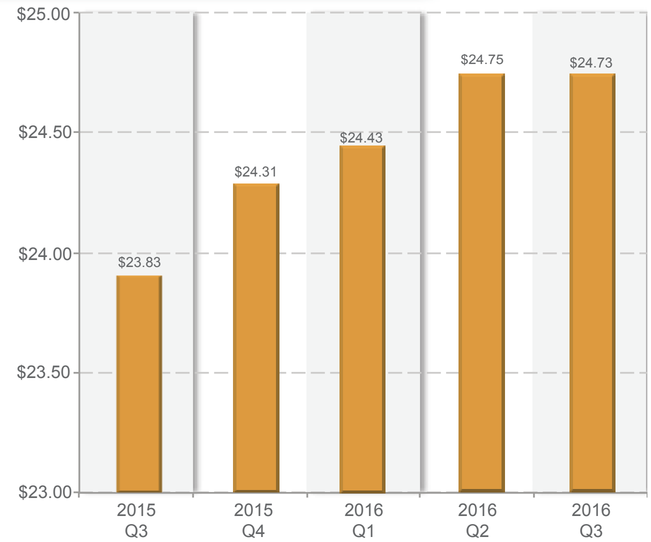
NORTHERN NEW JERSEY - TRENDING NOW (continued)

Tenants in Class A space are looking for favorable terms to renew in place, and landlords are battling for longer lease terms. Tenants, concerned about escalating rents are agreeing to slightly longer leases in return for lower lease rates. Landlords continue to offer more in the way of amenities like gyms, in-building kitchen services and public area dining/lounging areas to attract tenants looking to hire the growing millennial component of the workforce.

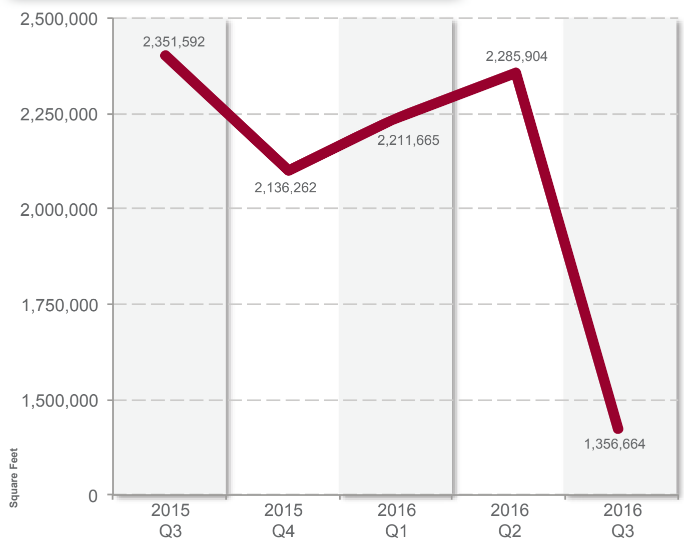
Net absorption returned to positive territory in a big way in Q3. After two consecutive quarters of negative net absorption, the region posted a gain in occupied space or 2,679,426 square feet. Class A accounted for over 2 million square feet of that total. With so many tenants looking to reduce occupancy costs, renewals are still on the rise, some of which are being completed at lower than existing rates with Class B landlords looking to shore up longer term cash flow.

Just over 1.3 million square feet of space was under construction by the end of Q3, and just under 1 million square feet was added to the base inventory that is now over 364 million square feet. Most of the new deliveries in recent years have been build-to-suit projects. Speculative development is still running at a nominal pace. The top three deliveries and the two largest projects under construction this year have all been 100% preleased.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION

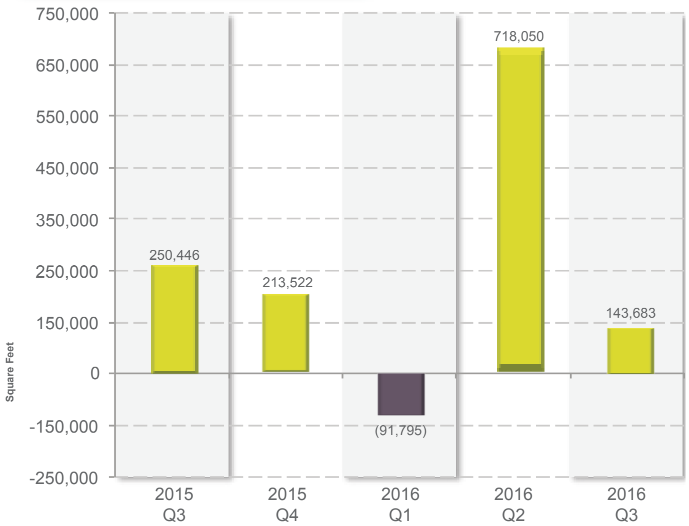


A LOOK AHEAD

- Lease activity will be strongest in Class A product in Hudson Waterfront, Princeton and parts of Bergen County
- Net absorption should keep moving up, but Class A will see the greatest gains
- Asking rents will continue on current growth trajectory
- Class A vacancy will move down to 16% and Class B will decline to 12% in the next several quarters
- More obsolete buildings will be re-purposed and removed from office inventory
- Sales prices could move up next year by as much as 20% for Class A and 10% for Class B

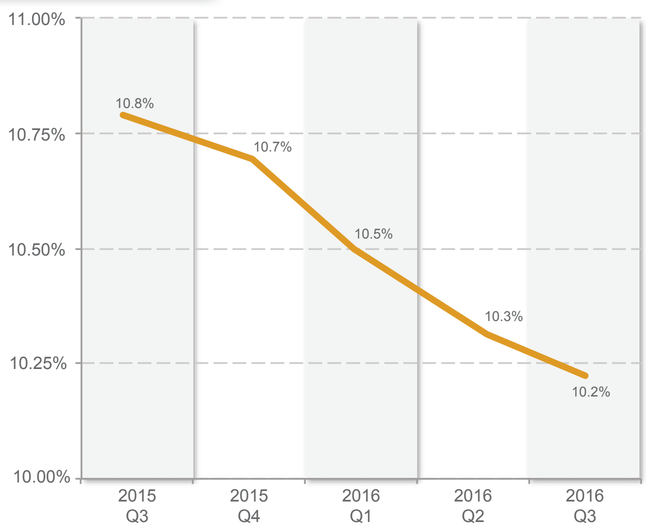
COLUMBIA, MARYLAND

NET SF ABSORPTION



*numbersreflectthegreaterBaltimoreregion

VACANCY RATE



*numbersreflectthegreaterBaltimoreregion

TRENDING NOW

The Columbia South office market, includes downtown Columbia through Maple Lawn. The region is strategically located between the cities of Baltimore and Washington DC, and is home to several government security agencies that provide opportunities for subcontractors to establish locations nearby. Strong population and skilled workforce demographics, along with a respected education system, attracts younger workers to the live-work-play lifestyle phenomenon that has been sweeping the nation for the past several years. In fact, Columbia, Maryland was just named the No. 1 place to live by Money Magazine.

The Columbia Downtown is the primary CBD. It contains several existing Class A office properties and will soon be home to two new buildings being developed by the Howard Hughes Corporation as part of its Merriweather District, and another being built by Costello. Together these substantially preleased projects, will add another 452,000 square feet to the base inventory. The largest of the three is Howard Hughes Corporation's 210,000-square foot project at 10980 Grantchester Way, which is scheduled for completion in Q4 of this year. Greenebaum Enterprises completed its 138,900-square-foot building on Maple Lawn Blvd in Q2. It was the second largest new office building delivered this year for the entire Baltimore metro area, which now boasts over 138.5 million square feet of office space.

Vacancy for the entire Baltimore region has been moving down steadily and shed another 10 basis points in Q3 to settle at 10.2%. The Columbia South market continues to be one of the metro area's most active areas. Columbia South finished the third quarter with just 7.1% of its 10 million square foot base standing vacant. The neighboring Columbia Town Center and Columbia North submarkets posted vacancy rates of 8.9% and 9.2%, respectively.

10.2%	$22.28	143,683	138,564,389	2,134,276
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INVENTORY (MSF)	SF UNDER CONSTRUCTION
▼	▲	▼	▲	▲

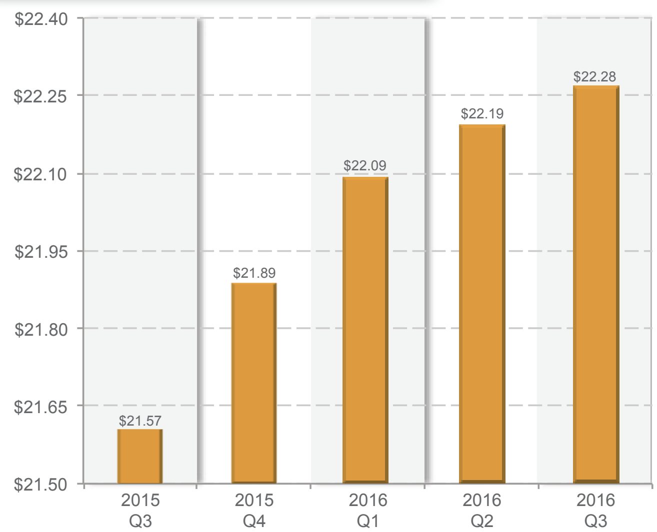
COLUMBIA, MARYLAND - TRENDING NOW (continued)

Declining vacancy is finally giving landlords a chance to push for higher rents and reduce tenant concessions.

Average asking rental rates continue to move up throughout the region. Year-over-year, the Baltimore has seen a rental rate increase of $.71, to a post-recession high of $22.28. Asking rates are higher in the Columbia Town Center area at $26.10 because new deliveries and construction activity are concentrated there. Though, Columbia North is not far behind at $25.80. Both those rates are well above Baltimore's central business district where the average asking rate finished the period at $22.01. Class A space is seeing most of the leasing action, while Class B activity in suburban submarkets remains sluggish. Class A space in the CBD of Columbia and Maple Lawn continue to see the most tenant interest because both submarkets offer a good variety of walkable amenities.

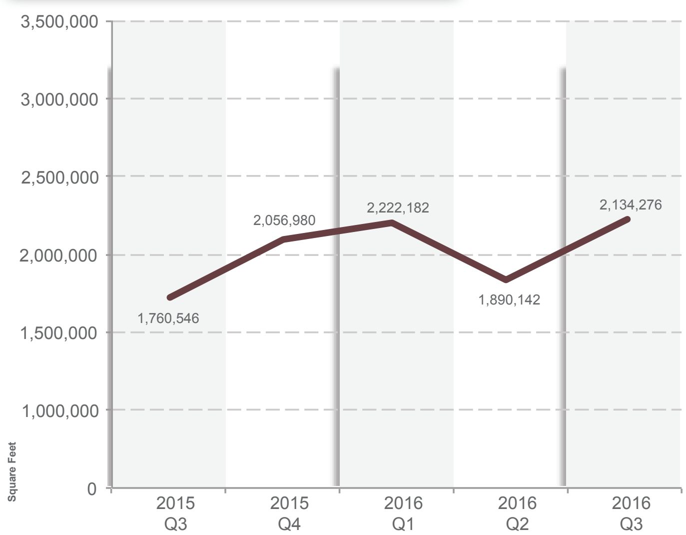
However, the Columbia South market has posted net absorption of 128,000 square feet so far this year. Columbia North has added another 52,223 square feet, but Columbia Town Center has recorded a slight loss 20,810 square feet. Net gains are still being influenced by the efforts of tenants to use less space by leveraging the latest trends in workplace technologies and mobile communications. Big contributors to this year's absorption totals include Nielson Audio's move into 54,600 square feet at 7000 Columbia Gateway Drive, the 61,433-square-foot lease to the Municipal Employees Credit Union of Baltimore at 1 South Street and Wood Consulting's move into 34,725 square feet in the newly delivered building at 8115 Maple Lawn Blvd.

AVERAGE SF RENTAL RATES



*numbers reflect the greater Baltimore region

SF UNDER CONSTRUCTION



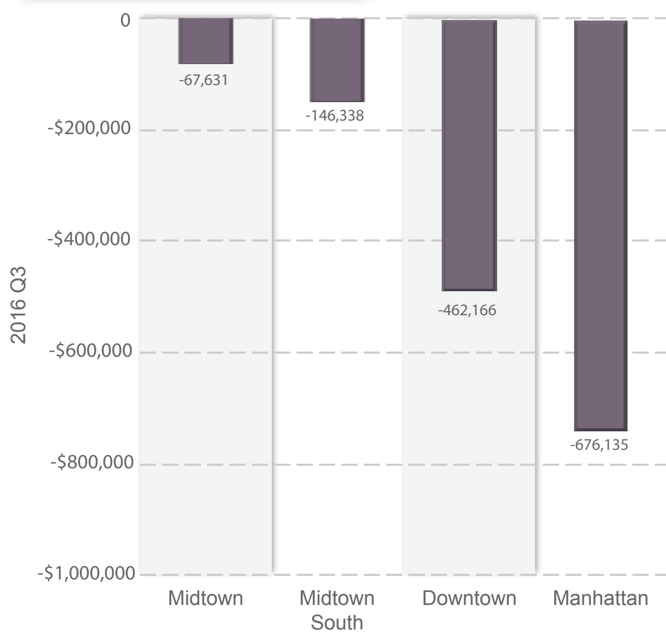
*numbers reflect the greater Baltimore region

A LOOK AHEAD

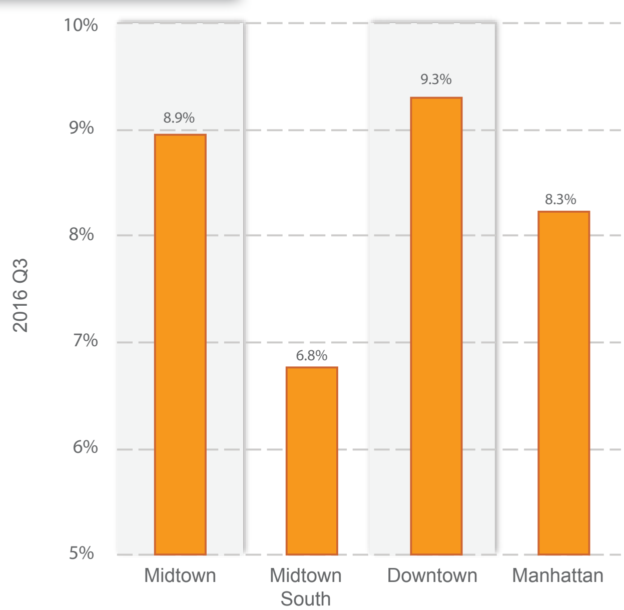
- Net absorption numbers will keep pace with new deliveries
- Vacancy will continue its steady decline, led by activity in Class A buildings
- Asking rents for Class A space will remain in the $27 range for the next several quarters
- Asking sales prices for Class A assets will trade in the $300 per square foot range
- Tenant preference for walkable, amenity-rich locations will increase as the workforce gets younger
- Office users are moving to more open design spaces and flexible work hours to help reduce space needed

MANHATTAN

NET SF ABSORPTION



VACANCY RATE



TRENDING NOW

Manhattan has three major market areas, Midtown, Midtown South and Downtown, each with distinct characteristics that attract particular user types. In essence, Manhattan's story is a tale of three cities. So, it is important to look at all three together and then each alone to develop a clear picture. Lee & Associates tracks buildings with at least 100,000 rentable square feet throughout the city, except for SoHo and NoHo, where buildings greater than 50,000 square feet are quantified.

The big story for Q3 was a further reduction in office leasing activity throughout Manhattan, and the fact that a significant chunk of recorded activity came in the form of lease renewals. Overall net absorption was in negative territory for the third time in the last three quarters, posting a 676,000-square-foot decline in occupied space. Despite lackluster market activity, overall asking rental rates did manage to move higher, ending the period at $67.86. New deliveries were light for the quarter, as well. However, another 12.76 million square feet of new office space remains in the construction queue, though some of that space in not slated for delivery until 2019.

Midtown, home to some of the country's largest companies, accounted for 52% of Manhattan's 6.5 million square feet of leasing activity for the quarter. But, the Random House, Dentons and W.W. Norton & Company renewals accounted for over 931,000 square feet of the total. Most submarkets experienced activity declines, some up to 50% compared to last quarter. Yet, asking rents keep moving higher. The Plaza District submarket commands the highest rate, at $112.19, but that came after a $.88 decline in the period. The Rockefeller Center submarket managed a $3.96 gain in asking rents despite a sharp decrease in leasing activity. For all of Midtown, the average asking rate moved up

8.2%	$65.11	(606,701)	558,378,987	13,507,005
VACANCY	AVG. SF RENTAL RATES	NET SF ABSORPTION	INVENTORY (MSF)	SF UNDER CONSTRUCTION
▲	▲	▼	▲	▲

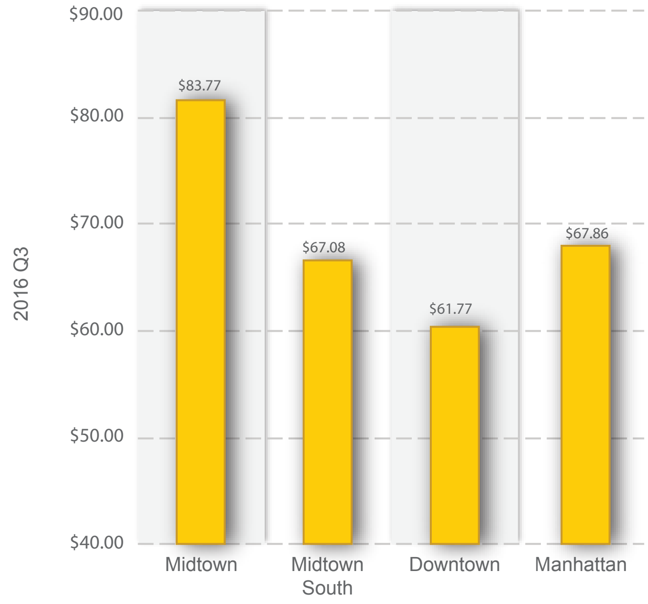
MANHATTAN - TRENDING NOW (continued)

while net absorption came in at a negative 67,631 square feet, the largest a 670,000-square-foot tower at 425 Park Ave in the Plaza District.

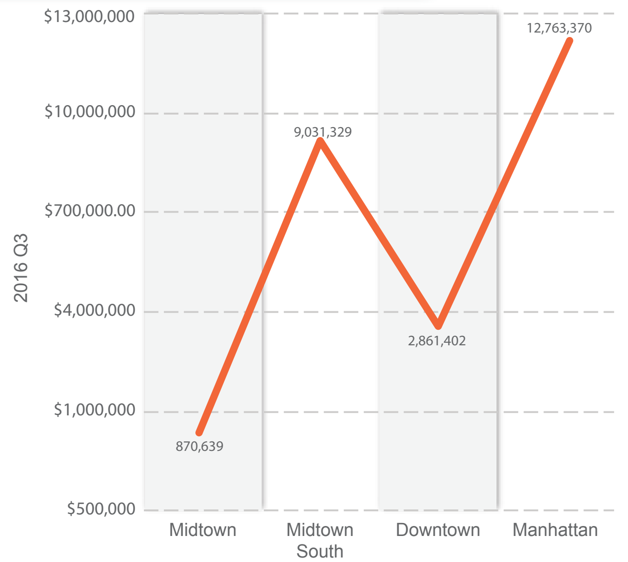
Midtown South is a fast-growing section of Manhattan that now boasts the lowest overall vacancy rate of just 6.8%. Known also as "TAMItown" because of the growing number of technology, advertising, media and information companies looking for a work environment that attracts the millennial workforce, Midtown South also has the highest concentration of buildings under construction. Over 9 million square of space is currently being built, nearly 71% of Manhattan's total. Rents are substantially lower than in Midtown, as well. The average asking rate in Midtown South was relatively unchanged for the quarter at $67.08. Four of the six Midtown South submarkets posted negative net absorption in Q3, but the Gramercy/Flatiron and Penn Station/Garment submarkets posted a combined gain of 153,000 square feet. In all, the region posted a 146,338-square-foot decline in occupied space. Leasing activity declined by 25% overall, but the Penn Station/Garment submarket recorded a sharp increase.

Downtown, which includes the World Trade Center, is a hybrid market, offering a variety of product types that attract users from both Midtown and Midtown South. Many buildings have larger floor plates that offer more flexibility in terms of space design. Rents are lowest in Downtown, as well. In Q3, the overall asking rate was stable at $61.77, but net absorption came in at a negative 462,166 square feet, almost all of that occurring in the Financial District where vacancy also increased by a full point to 10.3%. One building, 3 World Trade Center is under construction in the Downtown market, but that building, due for completion in 2018, is nearly 2.9 million square feet.

AVERAGE SF RENTAL RATES



SF UNDER CONSTRUCTION



A LOOK AHEAD

- Delivery of new construction and buildings in the completion stages of major renovations will further contribute to the escalation of Manhattan's available inventory supply
- The effect that this increase may have on overall rents is undetermined
- If prices continue to increase, vacancy in Manhattan will increase in return
- Due to new office space asking for above-average rents and thus affecting existing supply to either cut rents or increase their rents to reflect the net market pricing heavily stimulated by new office space
- Concessions will increase if prices increase or remain stable accompanied with an abundance of available supply

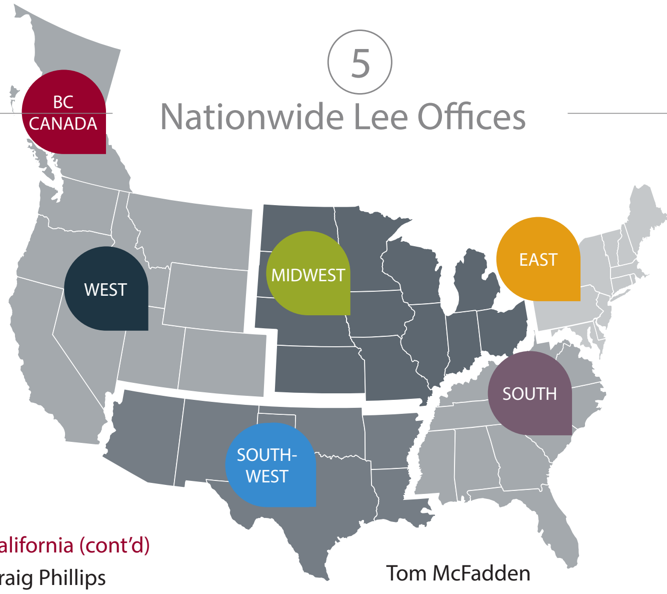
SELECT TOP OFFICE LEASES Q3 2016

BUILDING	MARKET	SF	TENANT NAME
10 Hudson Yards	New York City	694,000	Coach, Inc.
Moffett Gateway	South Bay/San Jose	595,840	Google
Verizon Headquarters	Dallas/Ft Worth	576,138	Verizon
5 Giralda Farms	Northern New Jersey	431,493	Allergan
Bell Works - Office	Northern New Jersey	350,000	iCIMS
Two Liberty Place	Philadelphia	330,540	CIGNA Health Management, Inc.
609 Main at Texas	Houston	237,708	United Airlines
350 Bush St	San Francisco	236,942	Twitch
Renaissance Tower	Dallas/Ft Worth	229,000	Environmental Protection Agency

SELECT TOP OFFICE SALES Q3 2016

BUILDING	MARKET	SF	PRICE PSF	CAP RATE	BUYER	SELLER
1285 Avenue of the Americas	New York City	1,800,000	$916.67	4.7%	RXR Realty	AXA Financial, Inc.
Verizon Hidden Ridge Campus	Dallas/Ft Worth	1,150,000	$299.13	5.35%	Mesirow Financial	Verizon Communications
321 N. Clark at Riverfront Plaza	Chicago	896,502	$379.36	4.0%	Diversified Real Estate Capital	Hines REIT, Inc.
400 Hope Street	Los Angeles	701,535	$447.07	4.9%	GLL Real Real Estate Partners	CBRE Global Investors
800 Scudders Mill Rd	Northern, NJ	761,824	$400.35	5.66%	Hana Financial Group	LCOR, Inc.
Amazon Phase VIII-BTS	Seattle/Puget	317,804	$776.58	4.3%	Mirae Asset Global Investments	Vulcan, Inc.

Nationwide Lee Offices



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