Office Outlook

United States | Q2 2014

Rents are running away from tenants in urbanized quality cores with level of increase expected to escalate due to capital demand (investment sales) having just as big of an impact on rent growth over the next 24 months as leasing demand due to increasingly bullish underwriting projections from sales / refinancings.

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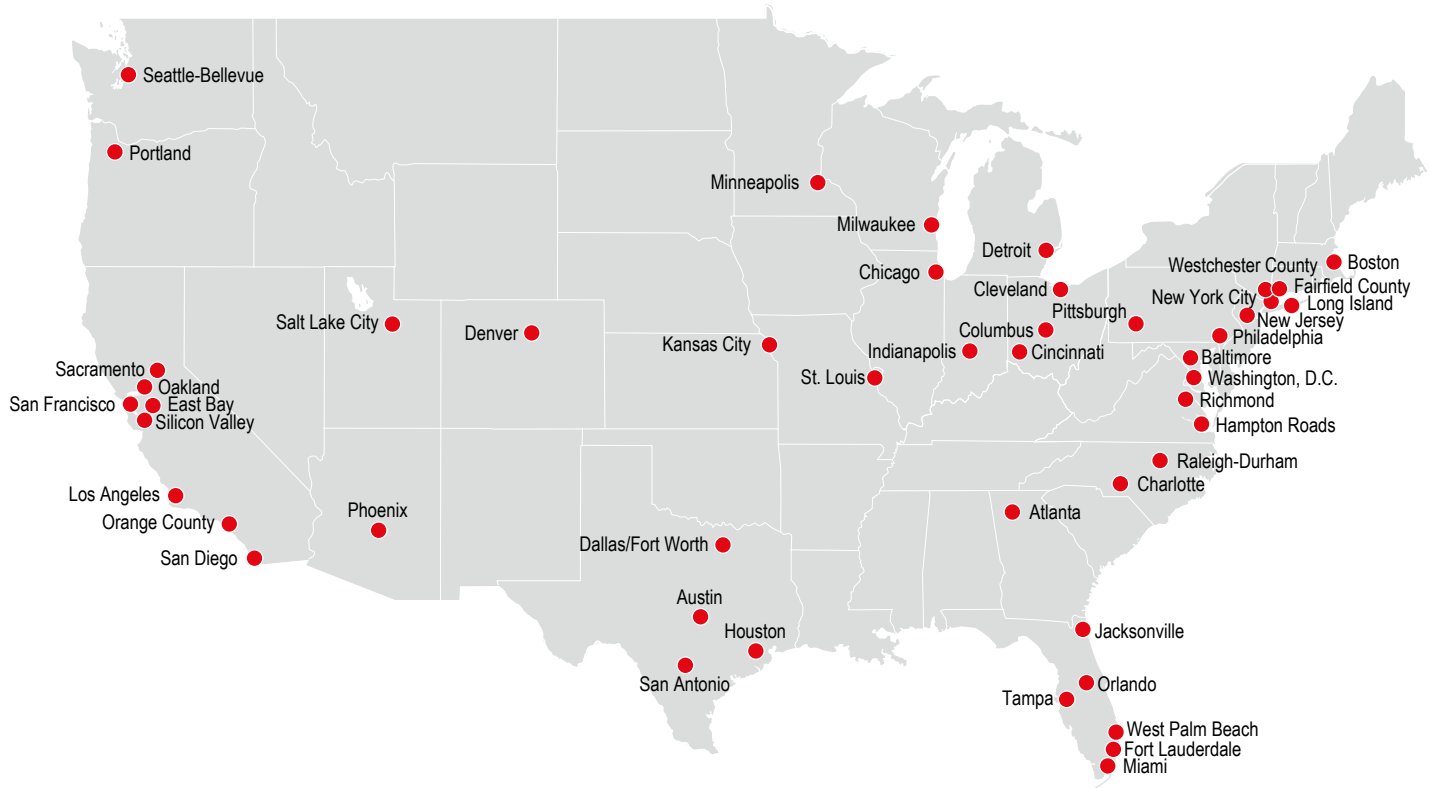
In this report

Key highlights

1. Despite continued chatter around economic weariness (disappointing Q1 GDP numbers, escalating interest rates ahead, muted emerging market growth, public market stagnancy of late), consensus economic forecasts remain bullish with GDP economic growth projected to come in near 3.0 percent for the remainder of the year.
2. Further, economic indicators most closely tied to real estate demand levels happen to be some of the strongest performers of late.
   - All jobs lost during the recession were "regained" as of last Month and job growth has been more consistently clocking in above 200,000 each month since year-end 2013.
   - Consumer and business confidence are at their highest levels since 2008.
   - Corporate profits continue to eclipse new highs and companies are sitting on more than $1.6 trillion in cash, a record high, which is more readily flowing into the market in the form of M&A activity, stock repurchases and hiring growth, among other investments and reinvestments.
3. The U.S. office recovery is gaining greater momentum and diversifying highly as we move further into 2014.
   - Q2 2014: Highest quarterly rate of net absorption during the recovery so far.
   - 90.0 percent of markets consistently reported occupancy growth over the past 12 months.
4. Confidence escalating for landlords, fueling rent growth expectations over the next 24 months.
   - 100.0 percent of geographies we track forecast rent growth by year-end; up from 85.0 percent today.
   - Trophy / Class A urban are leading; opportunity ahead for momentum in Class B and suburbs due to tightness for quality.
5. Development is making a comeback.
   - Vast majority of development under way is in TX and N. CA with peaking expectations there earlier than rest of the United States (late 2015/ early 2016).
   - Lenders are becoming more comfortable with market recovery, placing strategic bets on limited spec.



United States office market

Leasing activity rebounds in second quarter; uptick in touring velocity reported

First quarter 2014 leasing activity dipped due to an unseasonably cold winter; however in the second quarter, we saw leasing activity gain momentum, particularly from large users. Overall leasing activity increased 6.2 percent from the first quarter of 2014 and large leasing activity returned after a two-quarter lull: there were 14 leases exceeding 300,000 square feet signed in the second quarter, compared to just eight of those sized deals in the first quarter. Included in those leases completed in the second quarter were several with expansion or significant expansion including

- Blackstone in NYC for 489,495 square feet
- Salesforce and LinkedIn for 714,000 and 450,000 square feet, respectively
- Ericsson for 400,000 square feet in Silicon Valley
- Saint Gobain in Philadelphia for 320,000 square feet

Year-over-year, second quarter 2014 leasing levels were a bit more flat, coming in slightly above those of second quarter 2013 by 0.2 percent and trailing slightly the 30-quarter rolling average.

Looking forward, of the 49 markets JLL Research tracks, just one-Richmond, reported slower touring activity headed into the summer with 49.0 percent of markets registering higher touring volume from a quarter ago and the remaining seeing stable touring volumes.

Occupancy growth totals hit a recovery high, while rent forecasts increase

The U.S. office sector experienced 13.9 million square feet of positive net absorption in the second quarter of 2014, trouncing the first quarter tally by more than 5.5 million square feet or 63.0 percent and besting the second quarter of 2013 tally by 38.0 percent. Over the past four quarters, net absorption totaled 46.0 million square feet, the highest four-quarter total of any point in the recovery and 39.0 percent higher than the previous four-quarter rolling average from Q3 2012 to Q2 2013. Additionally, year-to-date over the first two quarters of 2014, net absorption hit 22.5 million square feet, up 25.7 percent from the same two-quarter total (17.9 million square feet) in 2013.

Over the past eight to nine months, we have seen a fervent escalation in tenant activity and expansion across the vast majority of markets and the hard statistics are finally beginning to back this up. In the second quarter of 2014, 88.0 percent of markets posted positive net absorption and in the first two quarters, 86.0 percent of markets experienced occupancy gains.

Further, when looking back across the past five quarters since second quarter 2013, 92.0 percent of markets have experienced occupancy growth cumulatively during that five-quarter span (only DC, New Jersey, Pittsburgh and Westchester County missed the cut). Regionally, NYC appears to be clawing its way back after two years of stagnancy. NYC comprised 17.3 percent of occupancy gains during the quarter followed by Boston accounting for 8.6 percent, Houston for 7.3 percent, Chicago for 5.8 percent and South Florida for 5.4 percent, cementing the fact that the recovery is broadening and diversifying to nearly all segments of the economy from a geographic and industry perspective.

Vacancy levels hits the lowest point in six-plus years

As a result of enhanced occupancy gains, vacancy fell after remaining stable last quarter. Vacancy closed the quarter at a rate of 16.3 percent, down 20 basis points from the end of March and down 70 basis points from last year.

Tenants are facing the tightest market conditions in urban Class A environments. At the end of the second quarter, total vacancy declined to 13.6 percent for the Class A CBD office sector, down from 14.5 percent 12 months ago and hovering 20 to 40 basis points from equilibrium, which will translate into higher rent growth and enhanced development.

The suburbs are also recovering, but at a slightly slower pace, and have a longer road to recovery equilibrium. At the end of the quarter, vacancy across the suburbs declined to 18.0 percent from 18.5 percent 12 months ago.

Rent forecasts signal higher level of growth ahead over the next 24 months

Across the 49 U.S. office markets JLL tracks, sentiment remains that rents are increasing in 98.4 percent of those markets with the only major market sector to showing rent declines (Suburban Chicago). Roughly two-thirds of markets reported increases in asking rents during the second quarter, far higher than the 46.0 percent that witnessed rent growth during the first three months of the year. Year-over-year growth came in at 2.5 percent slower, slower mainly due to limited high-quality options in the market, meaning average are rents being dictated by commodity rather than quality in current market.

In most markets, rental rates increased only marginally, although supply-constrained and tech-heavy San Francisco, Silicon Valley and Portland all registered 3.6+ percent quarterly increases in asking rents.

- At the submarket level, however, rent growth continues.
- Class A rents in the South Financial District of San Francisco have jumped by almost 13.0 percent year-on-year as the tech industry spurs demand and strong preleasing.
- The creative hub of Chelsea in Midtown South (New York) has reported year-on-year rental growth of 10.4 percent for Class A space as firms flock to creative space and proximity to major tenants such as Google.
- Houston's Katy Freeway submarket, also known as the Energy Corridor, is seeing the price for quality space increase by 9.2 percent over the past 12 months despite more than 5.9 million square feet of construction, much of which is build-to-suit or fully preleased.

As landlords have increased rents more aggressively, concession declines have continued. The trend over the past 24 months remains one of smaller TI allowances and rental abatement with levels down more than 20 percent from peaks established during the height of the downturn. A gap of another 15 to 18 months until the next cycle of developments deliver in late 2015 will yield continued market tightening and consistent rent growth exceeding 12.0 percent around the country through 2015.

Development activity ramps up as demand widens and options thin

Construction volumes have jumped 38.4 percent to 65.4 million square feet compared to YE 2013 levels, led mostly by a handful of geographies, most notably Houston. The top 10 markets represent 69.5 percent of the overall development totals with some markets in the top 10 showing more substantial construction to inventory (CI) ratios including:

- Houston: 9.9 percent CI ratio; development represents 23.5 percent of U.S. activity
- Silicon Valley: 5.6 percent CI ratio; development represents 5.4 percent of U.S. activity
- Austin: 5.6 percent CI ratio; development represents 3.9 percent of U.S. activity
- San Francisco: 4.8 percent CI ratio; development represents 5.6 percent of U.S. activity

While development activity has upticked across those top 10 markets, preleasing levels remain elevated and higher than historical norms with most markets somewhere in the range of 50.0 to 70.0 percent of the development pipeline accounted for across the metro.

Tenant challenges ahead

1. Rents are running away from tenants in urbanized quality cores with level of increase expected to escalate due to capital demand (investment sales) having just as big of an impact on rent growth over the next 24 months as leasing demand due to increasingly bullish underwriting projections from sales / refinancings.

2. Getting the right "right" in rightsizing…In recent months, we have seen some corporates become too aggressive in workplace strategy and optimization for their work cultures to handle, thus some of these companies have come back into market to correct that overcorrection.

Tenant opportunity ahead

1. Commodity space in CBDs and suburbs remains prevalent and an increasing chunk of it is being repositioned to enhance its attractiveness to tenants. This type of space will present additional options at a discount to new construction coming out of the ground.

2. With sticker shock already present in many of the energy-fortified and tech-rich economies, tenants might find the most relief from a lack of future rent growth ahead in these markets not due to a demand problem, but a supply problem. Rampant construction under way could deliver new and / or backfill relet options in 2015 and 2016.

Landlord challenges ahead

1. Landlords with significant exposure to traditional office space / submarkets are seeing growth, but expectations for forward-looking growth are muted compared to unique buildings / neighborhoods that have exceptional views, architectural characteristics, higher utilization ratios, greater amenities, etc.

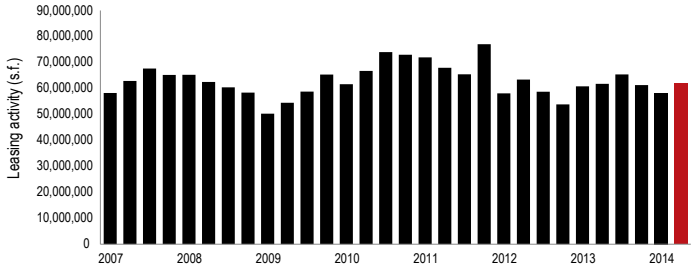
2. Most landlords and investors of U.S. office product are optimistic about the recovery across most markets, but more pessimistic in terms of placing all of their capital allocations ahead. Already challenges have developed for capital allocation in many coastal gateways and we are seeing the same yield compression and broader buyer pool develop in more adjusted risk-adjustment segments too recently.

Landlord opportunity ahead

1. Ownership with holdings that are more diverse from a geographic and tenant-mix standpoint are finally beginning to feel the impact of a true national recovery with expectation for continued (and higher) occupancy growth through late 2016 / early 2017 at a minimum.

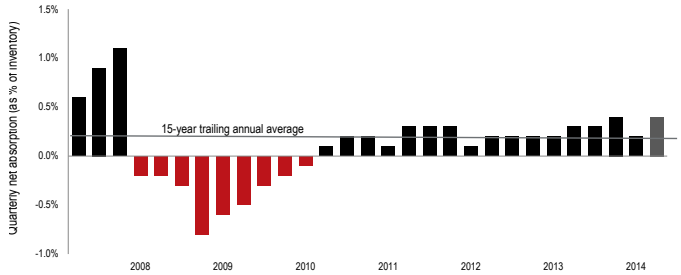
2. Nearly all markets are reporting increased rents today and rents are forecast to grow another 10.0 to 25.0 percent depending on the market over the next 30 months.

Leasing volumes rose by 6.2 percent to 61.9 million square feet after two consecutive quarters of declines



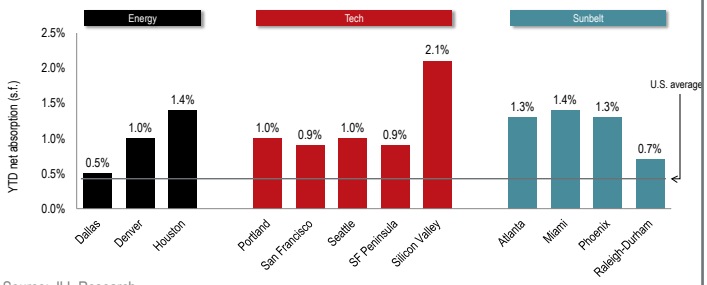
Source: JLL Research

Q2 represents highest quarterly absorption throughout the recovery so far (13.9 million square feet)



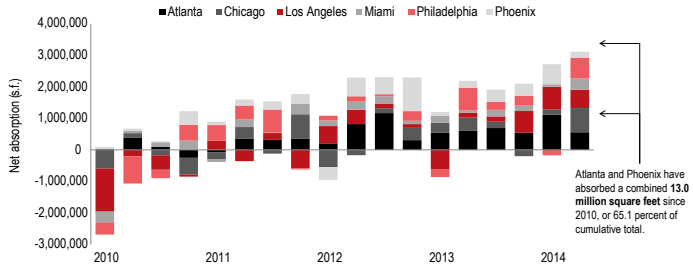
Source: JLL Research

Energy, tech and Sunbelt markets all posting above-average absorption; Sunbelt surpassing energy in some cases



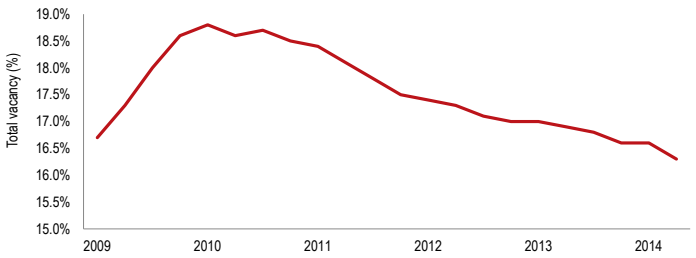
Source: JLL Research

Diversified markets hit another recovery high with 3.1 million square feet of occupancy gains, this quarter led by Chicago



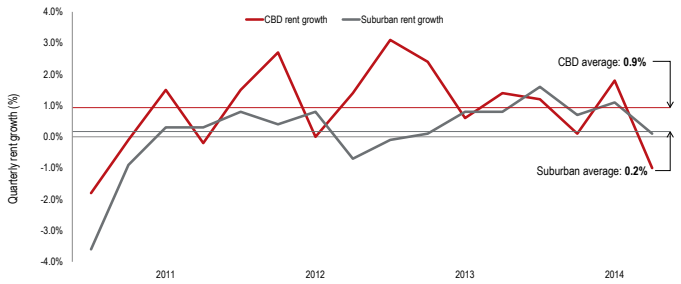
Source: JLL Research

Due to high levels of take-up, total vacancy fell to 16.3 percent, or 30 basis points



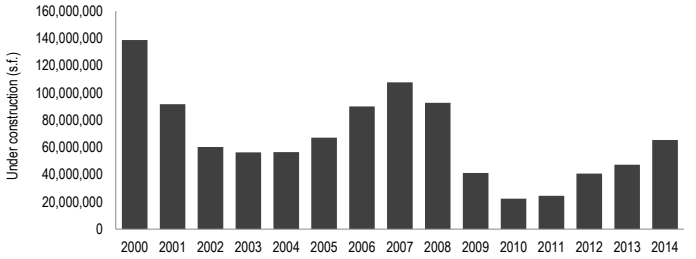
Source: JLL Research

After spiking, CBD rents fall due to removals of high-quality space; suburban rents on the up quarterly and are more stable



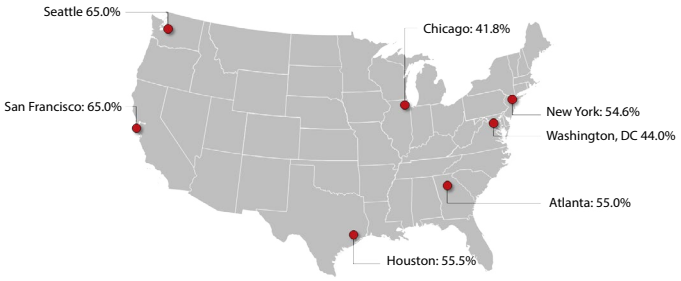
Source: JLL Research

Construction volumes jump 38.4 percent compared to YE 2013, led by Houston, and most markets seeing dwindling space options



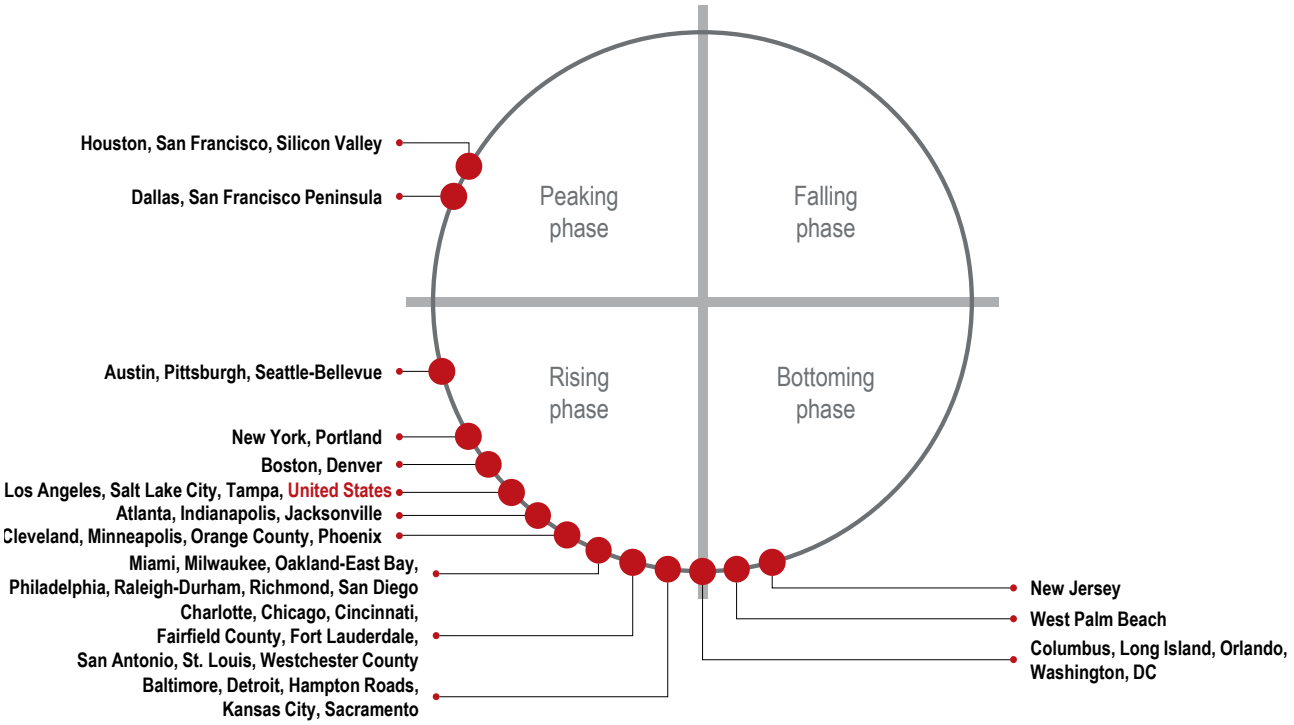
Source: JLL Research

Strong preleasing activity is helping new developments go ahead, but is also reducing the ability to ease supply constraints



Source: JLL Research – sampling of preleasing activity, some buildings may have additional preleases

United States overall office clock



Reading the clock

The JLL office clock demonstrates where each market sits within its real estate cycle. Markets generally move clockwise around the clock. Geographies on the left side of the clock are generally landlord-favorable, while markets on the right side of the clock are typically tenant-favorable.

Roughly two-thirds of markets reported increases in asking rents during the second quarter, far higher than the 46.0 percent that witnessed rent growth during the first three months of the year. In most markets, rental rates increased only marginally, although supply-constrained and tech-heavy San Francisco, Silicon Valley and Portland all registered 3.6+ percent quarterly increases in asking rents.

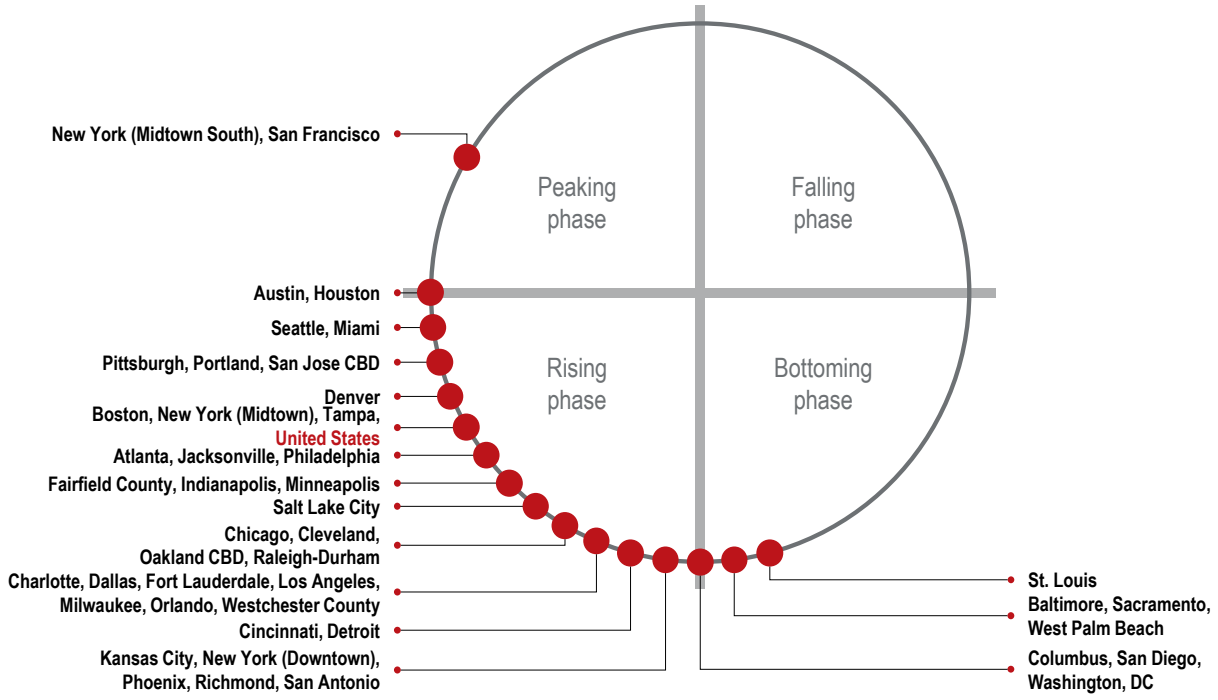
Countering previous growth was the removal of quality blocks of space across a number of markets, such as Fairfield County, which saw a 4.9 percent decline in rents over the quarter. Tightening with a lack of new supply either under development or imminently breaking ground has left tenants with few high-quality space options, and thus demand and tenant activity has shifted to the commodity A and B segments of the market of late. In turn, this is slowing rental rate growth at the marketwide level as high-end spaces are no longer available and weighing on rents. Nationwide asking rents have slowed, inching up 2.5 percent year-on-year. As a result, the U.S. office market has stayed firm at its 7:30 position on the clock in the second quarter of 2014 rather than continuing its gradual-but-steady clockwise movement.

At the submarket level, however, rent growth continues. Class A rents in the South Financial District of San Francisco have jumped by almost 13.0 percent year-on-year as the tech industry spurs demand and strong preleasing is reducing the amount of available supply coming to the market. Similarly, the creative hub of Chelsea in Midtown South (New York) has reported year-on-year rental growth of 10.4 percent for Class A space as firms flock to creative space and proximity to major tenants such as Google. Even Houston's Katy Freeway submarket, also known as the Energy Corridor and among the country's premier locations for energy-related firms, is seeing the price for quality space increase by 9.2 percent over the past 12 months despite more than 5.9 million square feet of construction, much of which is build-to-suit or fully preleased.

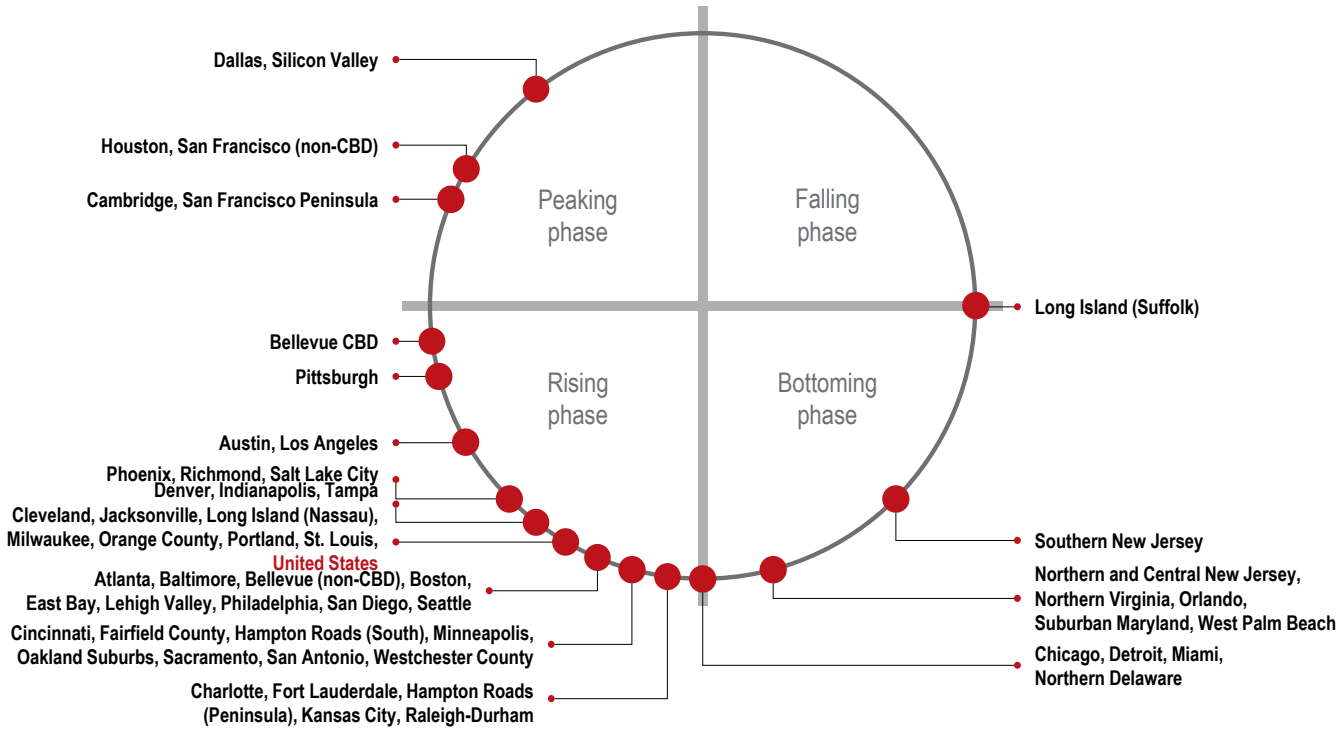
Additionally, low vacancy and strong demand in the top-tier of the market is positioning commodity segments for potential future leasing success. Class B rents have only increased by 1.7 percent over the year, providing affordable opportunities for value-conscious tenants. We expect that continued leasing activity due to the affordability and availability of this space will ultimately mean tightening in the commodity market, bringing with it rent growth and thus higher rents. Landlords may find it in their best interest to reposition commodity assets to take advantage of tenant preferences and moves toward quality and efficient space, which will also bump up face rents.

As landlords have increased rents more aggressively, concession declines have continued, but slowing to a degree. However, the trend over the past 24 months remains one of smaller TI allowances and rental abatement with levels down more than 20.0 percent from peaks established during the height of the downturn. A gap of another 15 to 18 months until the next cycle of developments deliver in late 2015 will yield continued market tightening and consistent rent growth exceeding 12.0 percent around the country through 2015.

United States CBD office clock



United States suburban office clock



United States economy

The U.S. economy witnessed a major milestone during the second quarter, recovering all jobs lost during the recession. Seventy-nine months into the cycle, the 8.7 million jobs lost during the recession have been regained, although their composition is much more focused on the specialized, creative and professional industries as well as education, health care and leisure and hospitality. Unemployment has also fallen and is now at 6.3 percent, a recovery low.

At the same time, other economic measures, including the consumer confidence index, housing starts, rising venture capital funding and output are also showing signs of promise. Combined, these metrics and many others point to a recovery that has finally begun to click, and not in just specific niche markets. From the Sunbelt to the West to the Northeast to the Midwest, the recovery has accelerated across markets and industry segments. After years of false starts and improvements limited to a handful of metros, 2014 is shaping up to be a game-changing year for the national economy and, in turn, the office market.

Creative and specialized sectors still driving job growth

Over the past 12 months, the leader in payroll growth remains professional and business services (PBS), which has added 635,000 jobs, or 26.7 percent of new jobs over the past year. Contributing to this have been subsectors such as management and technical consulting services, which has added 48,600 jobs year-on-year (+4.2 percent), and computer systems and design, up 63,700 jobs (+3.8 percent). Contrasting this is legal services, which has consistently remained flat throughout the recovery. Only one-third of lost legal services jobs have been regained, and the subsector's slow annual growth of only 0.1 percent indicates a paradigm shift for one of the largest users of quality urban office space. New financial activities and information jobs have been imbalanced; in only 12 months, internet publishing employment has spiked by 10.6 percent, although this has not been enough to counter losses in print publishing and motion picture recording and sound production.

Education and health services, on the other hand, has gone from an emerging to a core driver of economic growth. The need for care for an aging population, as well as growth in health-related tech, life sciences, a rapidly increasing demand for higher education and health legislation are some of the factors behind the sector's 363,000-job growth over the past year. Another bright spot has been leisure and hospitality; its 391,000-job growth over the past 12 months is the second largest of any subsector after PBS. Like education and health services, leisure and hospitality employment has been booming across the United States. In Washington, DC, for example, its 2.6 percent annual growth stands in contrast to meager total nonfarm payroll increases due to government uncertainty and a downsizing of the federal workforce. Dallas, Portland, Austin, Houston, Atlanta and Florida are just some of the markets posting 3.5+ percent gains in leisure and hospitality. Hiring in this sector, which is highly cyclical, indicates bubbling confidence from both consumers and employers alike as domestic and international travel are edging upward.

Although the momentum for further employment growth has finally been building, there are still some challenges ahead. The labor force participation rate has been continually trending downward and rests at 62.8 percent, the lowest recorded rate in decades. To some extent, this has allowed the official unemployment rate to fall to its current level of 6.3 percent. Total unemployment, which includes marginally attached and part-time workers for economic reasons, is nearly double at 12.2 percent. Additionally, temporary help services, one of the largest components of PBS, continues to grow faster than the sector and national averages. The continued expansion of temporary help services, although still providing jobs, indicates that employers may still be somewhat cautious in terms of long-term hiring strategies.

Output and corporate profits continue to hit record highs

Gross domestic product surpassed $17.0 trillion during the first quarter, representing an increase of $480.7 billion, or 2.9 percent, year-on-year. Importantly, 73.2 percent of this growth came from personal consumption expenditures. This follows decreases in the personal savings rate as well as consistent monthly consumer confidence ratings hovering around or even above 80.0 points, both of which are signals of bolstered perceptions of the economy and its recovery.

GDP growth was underwhelming in the first quarter on a quarter-to-quarter basis, with negative contributions across the board, the largest being a drop in private inventories, increased imports and fewer exports, reductions in fixed private investment and declines in federal

expenditures. Whereas personal consumption had a 2.2 percent quarterly contribution during the fourth quarter of 2013, it fell to 0.5 percent. Similarly, gross domestic private investment and net exports fell from a 1.4 percent contribution to -3.5 percent. Exacerbated by adverse weather conditions, we believe that consistent growth since late 2012 and early 2013 likely makes it an anomaly rather than the norm, especially as other metrics point in an upward direction.

The remaining $139.6 billion came from private investment, which is growing 1.9 times faster than GDP overall. Of this $29.0 billion, or around one-fifth of private investment, was related to intellectual property. Government consumption expenditures are falling and therefore having a negative effect on GDP figures, while net exports are still negative, although the gap between exports and imports is shrinking. Over the course of the year, government expenditures declined by $7.1 billion, although the first-quarter spending of $3.1 trillion is still elevated compared to mid-2000s expenditures.

Corporate profits have also seen a positive trend throughout the recovery, even as other segments in previous years, although first-quarter profits declined by 9.1 percent to $2.0 trillion. Above the previous peak in 2006 by 16.6 percent, corporate profit growth has largely been found in non-financial subsectors such as manufacturing (+8.3 percent year-on-year) and information (+14.6 percent). The vast amount of cash is indicative of corporate health, which has been one of the leading indicators of the recovery this cycle.

Most other indicators with high touchpoint to the office market on the up

Other indicators, such as consumer confidence, point in a positive direction as well. The consumer confidence index's most recent score of 85.2 points represents a 3.0 point monthly increase and the highest consumer confidence rating since January 2008. At the same time that consumer confidence continues to rise, the Federal Reserve estimated a national personal savings rate of 4.8 percent, maintaining the sub-5.0-percent figure for 17 consecutive months. Lower personal savings correlate with improved consumer expenditures that have been responsible for much of the GDP growth of late, even during the disappointing first quarter.

CEO confidence has begun to stabilize as well; *Chief Executive* reports that nearly half of all surveyed executives expect improved revenue and profits in 2014, while the CEO confidence index is consistently around or above 6.00 points, deemed "very good confidence." Venture capital is also trending above its benchmark: $9.5 billion across 951 deals during the first quarter was equivalent to roughly one-third of 2013 funding and 23.3 percent of 2013 deals. At this rate, venture capital should match and potentially exceed 2013 levels. The growing amount of investment in non-Bay Area markets such as Boston, Denver, Los Angeles, Philadelphia and Midwestern markets ($2.2 billion, or 22.9 percent of YTD 2014 funding) is yet another sign of a diversifying economic picture that is beneficial for the office sector.

We expect that these measures will remain stable throughout 2014 and into the coming years, with a slight pickup in later quarters. For the office market, the desire to recruit talent will likely be enough to keep leasing activity expansionary rather than neutral or contracting, while startups have improved financial backing to go into the market and boost output as well as look for alternative space and new forms of tenancy.

Housing, one of the last pieces of the puzzle, is finally going clicking

Both the hardest hit and slowest to recover, the housing market is going through a moderate resurgence across geographies of late. The Census Bureau estimates that 411,000 housing starts have been authorized across the United States through May 2014, a 2.5 percent increase compared to the first five months of 2013. Of these, single-family dwellings comprised 61.4 percent of starts, a significant drop from the 78.0 percent share that single-family homes had in 2005 at the height of the previous cycle.

On an annual basis, 2013's 990,800 housing starts represented a spike of 19.4 percent compared to 2012, but is still 54.0 percent below the 2005 peak of 2.2 million starts. However, the disparity between single-family and multifamily performance is becoming more and more evident. While single-family starts are 63.1 percent below peak, multifamily starts are only 12.4 percent below their peak and in fact above historical averages. This derives in part from the oversupply of single-family homes, particularly in the Sunbelt, although markets such as Phoenix and Atlanta are posting the seventh and eighth largest volume of starts based on valuation of units among markets across the country. Additionally, preferences among younger and older residents alike for urban environments as well as growing institutional investor attention is positioning multifamily to the forefront of the growing construction industry.

From a pricing standpoint, values are similar to starts: while growing, they remain suppressed compared to pre-recession volumes, signaling that the market is correcting and moderating itself. The Case-Shiller Index stood at 171.7 points in April 2014 as aggregate home prices grew by 10.8 percent over the past 12 months. Still, home prices are 16.9 percent below their 2006 peak and at the current rate of growth will take around two years to recover fully. The only metro area to exceed pre-recession pricing is Dallas, where home prices are now 10.2 higher than in mid-2007.

Despite witnessing the worst of the housing crash, we believe that Sunbelt markets will see some of the brightest gains over the next 12 to 24 months. A combination of some of the highest rates of inward domestic migration, affordability, faster job growth and low interest rates is likely to benefit a region of the country previously burdened with elevated housing and office vacancy and among the last to join the national recovery, in part due to its high levels of economic diversification.

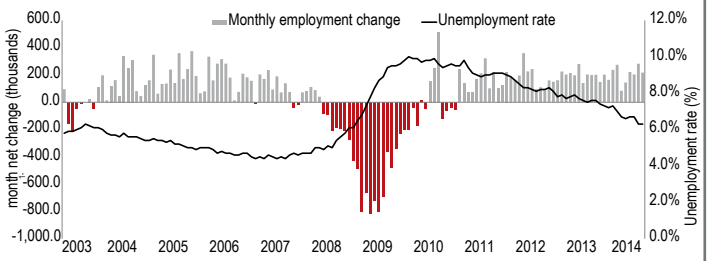
Heading into the second half of 2014, niche and diversified markets alike will be net contributors to the recovery

Much of the recovery of the past five years has occurred in phases, either from a geographic or industry standpoint. Beginning with New York and Washington, DC, gains then focused on tech markets, with the addition of energy hubs shortly after. The Sunbelt followed suit, and the final frontier are highly diversified markets, whose economies, housing and office markets are demonstrated stable and improving fundamentals. As a result, nearly all geographies are now net contributors to the recovery in its new, more unified phase.

Going into the latter half of 2014, the trends that have shaped the first six months of the year and made it the most productive so far will almost invariably continue. Markets with industry or geographic strength, such as the Bay Area for tech and Texas for energy, will be at the forefront, but are beginning to reach their peaks and may slow in the coming year or two. More diversified markets that have finally found their footing will post the greatest gains as most sectors are demonstrating improved hiring and output.

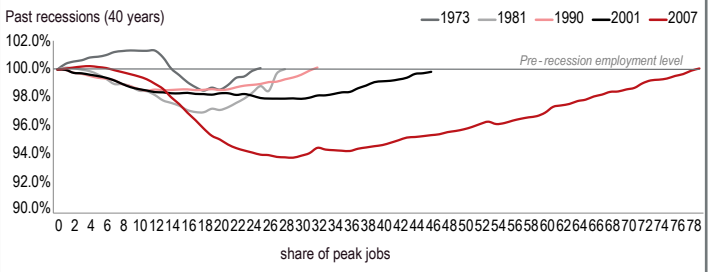
For the office sector, this means that many of the markets that were lagging are now making up for lost time. This quarter alone, Atlanta, Chicago, Los Angeles, Philadelphia, Phoenix and South Florida collectively absorbed almost 2.9 million square feet of space, or slightly more than one-fifth of the national quarterly total. In coming quarters, as expansionary activity in these markets increases due to availability of space and affordability compared to peaking markets, improving local consumer, investor and employer confidence will take hold, leading to greater leasing activity, absorption, falling vacancy and demand for new development.

Three-month growth currently rests at 702,000 jobs as unemployment remains stable at 6.3 percent



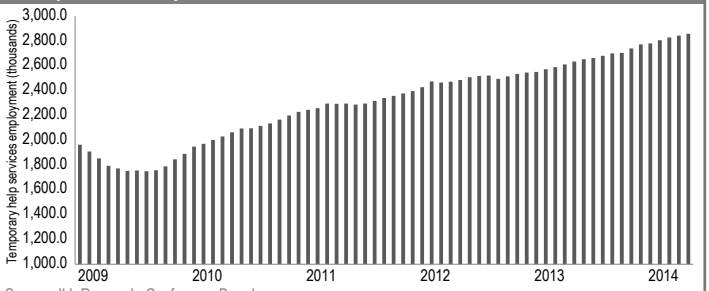
Source: JLL Research, Bureau of Labor Statistics

76 months into the cycle, total employment is now less than 0.5 percent below prior peak levels



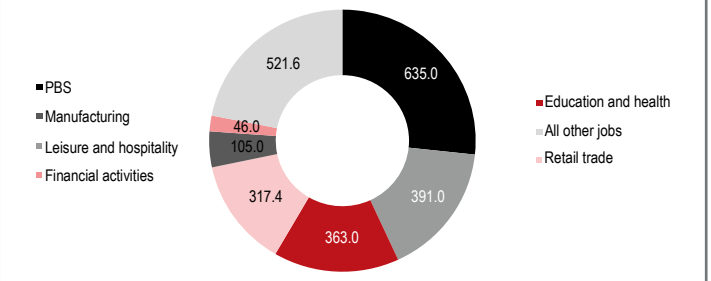
Source: JLL Research, Bureau of Labor Statistics

Temporary help services continues to rise and now comprises nearly 2.9 million jobs



Source: JLL Research, Conference Board

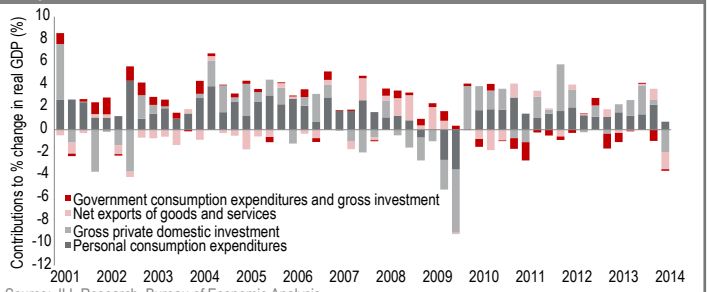
Core subsectors have added 78.1 percent of all jobs over the past 12 months



Source: JLL Research, Bureau of Labor Statistics

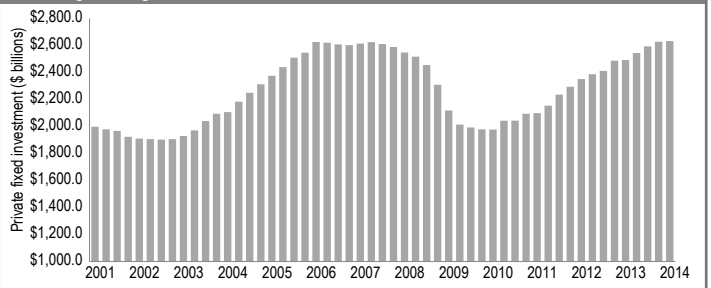
Figures represent thousands of jobs added per subsector

Personal consumption responsible for all GDP growth as output contracts



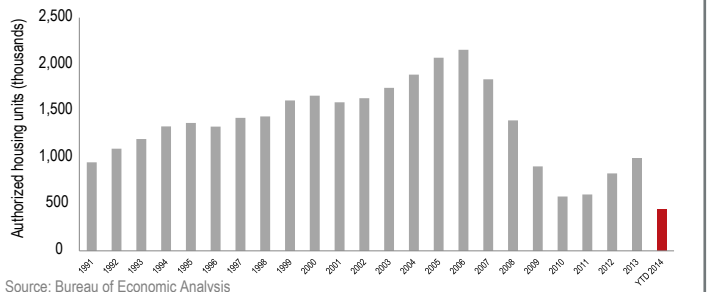
Source: JLL Research, Bureau of Economic Analysis

Private fixed investment still at record highs ($2.7 trillion) despite faltering during Q1



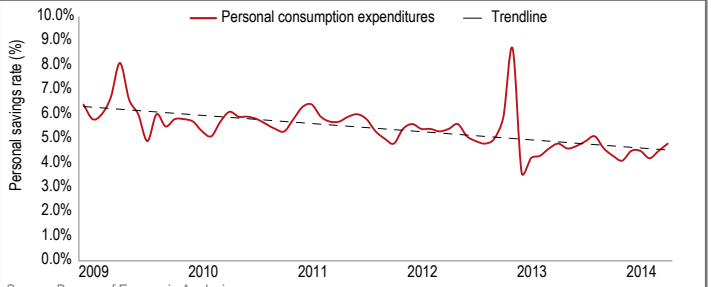
Source: JLL Research, Bureau of Economic Analysis

YTD housing starts halfway to 2013 levels; currently 440,100 authorized units this year so far



Source: Bureau of Economic Analysis

Personal savings rate stays below 5.0 percent and slowly falling, indicates consumer confidence



Source: Bureau of Economic Analysis

United States office capital markets

Halfway mark reveals steady growth in overall investment sales activity

At the halfway mark of 2014, results show steady growth in overall investment sales activity, with double-digit annual increases across most property sectors. Real estate fundamentals continue to tighten and a steadily improving economy continues to add to the momentum of the essentially recovery from the leasing side. The May employment figures show the U.S. economy has regained all of the jobs lost since the onset of the recession (over 200,000 jobs added in each of the last four months and eight of the last 12 months) and June numbers, which were just released, demonstrated the fifth strongest monthly gain of this cyclical recovery. The recovery has now spread to almost all geographies, resulting in real estate trading activity that continues to strengthen and broaden across a greater number of markets.

For the office sector in particular, trading activity remained robust. Based on preliminary totals, estimated sales volume for office transactions nationally came in above $25 billion during the second quarter. This represents a continued upward trajectory with volumes reaching the highest second quarter level since the 2007 peak year. For the second quarter and first half of this year, office investment sales activity is tracking at over 30.0 percent annually. We attribute this strength partly to significant office property sales in major gateways, boosting share in primary markets to 60.0 percent thus far. We expect this momentum to continue for the remainder of the year and estimate growth in office investment sales volume to likely come in the 20.0 to 25.0 percent range. Further broadening of secondary market activity could provide a potential upside.

Despite Fed tapering, lending environment remains supportive of real estate markets

As the Federal Reserve stays its course with QE tapering, the 10-year Treasury yield has declined by approximately 20 basis points during the second quarter alone, closing in on 2.53 percent by the end of June. Credit spreads have remained tight, with highly rated AAA CMBS spreads coming in by 10 to 15 basis points also during the second quarter. While initially off to a slow start at the beginning of the year, new CMBS issuance saw a particular uptick in June with total volumes close to those a year ago with $20 billion and $41 billion for second quarter 2014 and first half 2014, respectively (compared to $21 billion and $44 billion for the same periods in 2013). Healthy levels of new issuance continue to fund office investment activity. As overall Treasury yields, credit spreads and interest rates remain historically low, we can expect the cost of capital to remain favorable across all lending categories, supportive of real estate markets.

Strong activity in New York, San Francisco pushing primary markets to outpace secondary markets

While Houston and Seattle experienced notable declines in investment activity year-to-date, Manhattan, San Francisco and Boston demonstrated strong signs of growth this quarter. New York, particularly, continued to experience positive momentum, evidenced by annualized growth of nearly 60.0 percent with increased capital flowing to the Downtown submarket. Downtown Manhattan saw $2.5 billion of investment sales this quarter, the largest being SL Green's acquisition of its remaining 49.4 percent interest in the Citigroup-anchored 388-390 Greenwich Street from Ivanhoe Cambridge for $1.6 billion. Recent activity has seen cap rates compress to sub-5.0 percent levels across most parts of the city and amidst intensely strong competition for product in Midtown, cap rates have compressed to between 4.0 and 4.5 percent, with some buildings trading below 4.0 percent cap rates—on par with other major global gateways.

Notable trades or under contract trades during the second quarter include Canadian investor Oxford Properties' $2.1 billion agreement to acquire a five-building portfolio from Blackstone in Boston, making Oxford the largest Class A owner in the Downtown; the $1.5 billion sale of 5 Times Square in Manhattan by AVR Realty to David Werner; and JP Morgan's $418 million acquisition of Pacific Place in the South of Market submarket of San Francisco from Jamestown Properties. In Los Angeles, a partnership between Hines and the Hong Kong Monetary Authority is additionally in talks to acquire a majority stake in JP Morgan's 3.2 million-square-foot Century Park Tower complex.

As foreign capital pushes primary Trophy pricing, buyer composition diversifying in secondary markets

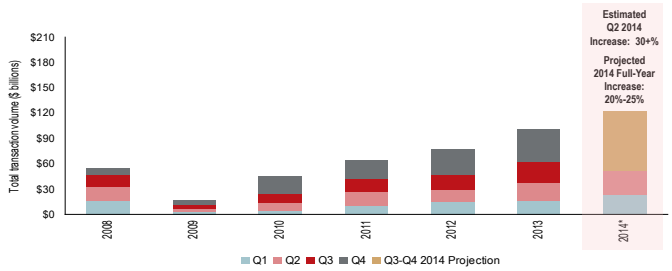
At mid-year 2014, markets are experiencing noteworthy growth across all asset classes. In the primary markets, foreign investment continues to drive Trophy investment sale activity. In the last 18 months, 70.4 percent of Trophy trades in the primary markets have sold to foreign entities with groups from Hong Kong, Canada and Norway the most active. This quarter, Canada-based Oxford Properties Group closed on 450 Park Avenue in Midtown Manhattan for $1,648 per square foot from Somerset Partners. This represented the seventh Trophy trade in the United States priced over $1,000 per square foot in this time period, all of which have occurred in the Midtown submarket of New York.

While foreign institutions continue to drive Trophy asset pricing in the primary markets, buyer composition in the secondary markets is diversifying between two primary profiles: REITs investing in core portfolio markets and domestic institutions diversifying into core assets in secondary markets. With a focus on continuing the expansion of its sunbelt portfolio, Parkway Properties closed on two Trophy assets—Courvoisier Centre in Miami and 800 Magnolia Avenue in Orlando—for $435 and $221 per square foot, respectively, this quarter, and MetLife acquired Republic Plaza, a 1.3 million-square-foot, 95.2 percent leased Trophy asset, in the Denver CBD for $240 million, or $181 per square foot.

All signs point to an investment sales market where momentum is likely to continue

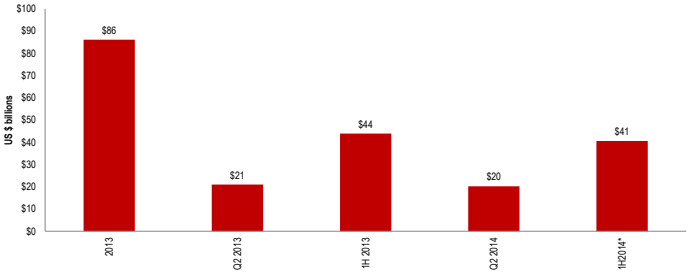
As we move further along into the recovery, the U.S. economy and office sector continue to show consistent and steady growth across a greater number of geographies and industry sectors. Along the way, both domestic and international investors are taking note of this growth and are increasingly actively trading in both primary and new secondary markets. Given steady rising economic growth prospects that we expect to still outweigh any near-term market volatility, coupled with the added support of a favorable lending environment, we remain optimistic and expect investment sales momentum to continue across an expanding number of U.S. geographies.

U.S. office transaction volumes up 31.0 percent in Q2 and 34.0 percent for H1 2014; expect strong growth for H2 2014



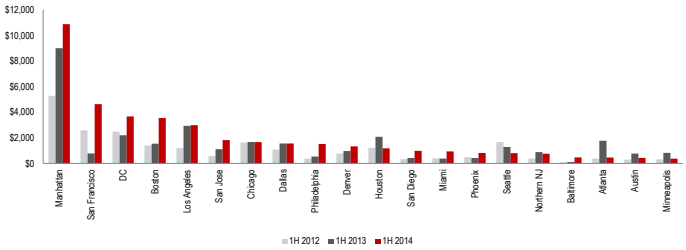
Source: JLL Research, Real Capital Analytics

New CMBS issuance of $20 billion for Q2 2014 and $41 billion for H1 2014, compares to $21 billion and $44 billion for the same respective periods a year ago



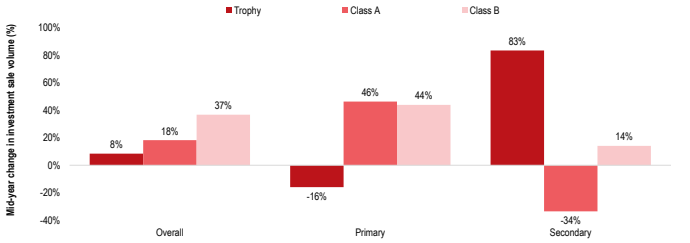
Source: JLL Research, Real Capital Analytics

Primary markets strong in H1 2014, as San Francisco makes a comeback; Dallas and Philadelphia most active secondary



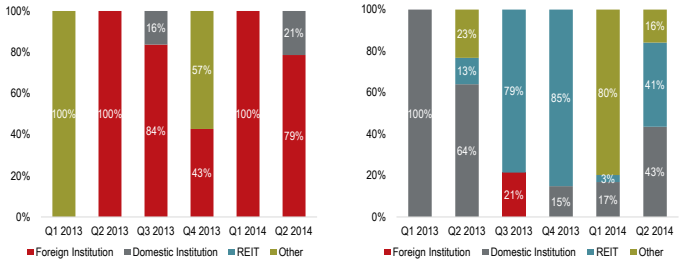
Source: JLL Research, Real Capital Analytics

Investment sale activity in Philadelphia, Denver and the Florida markets driving growth in Secondary Trophy trades in early 2014



Source: JLL Research, Real Capital Analytics

Trophy buyer composition diversifying in secondary markets, as foreign capital continues to push primary Trophy pricing



Source: JLL Research

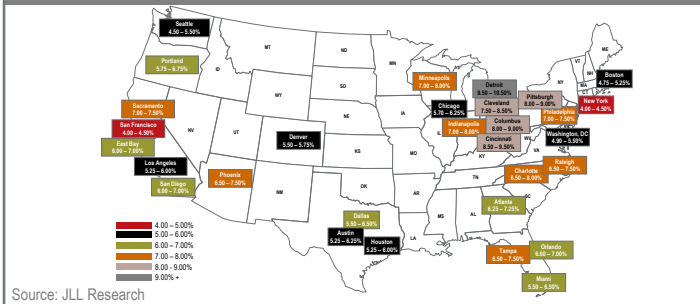
Canadian REITs and pension funds, and SWFs out of Hong Kong and Singapore have been most active in H1 2014 across most gateway and some secondary markets

Source of capital	Volume in $US Bil.	# of properties
Canada	$3.90	36
Hong Kong	$1.87	5
Singapore	$1.30	1
Norway	$0.74	2
China	$0.70	6
Japan	$0.50	3
Israel	$0.41	4
Germany	$0.39	5
Kuwait	$0.22	1
Other	$0.80	21
Total	$10.83	84

Market destination	Volume in $US Bil.	# of properties
Boston	$2.63	10
Manhattan	$2.39	8
Los Angeles	$1.72	3
DC	$1.22	7
San Francisco	$0.77	7
Chicago	$0.56	6
Dallas	$0.27	7
East Bay	$0.25	3
Denver	$0.24	6
Other	$0.78	27
Total	$10.83	84

Source: JLL Research, Real Capital Analytics

Cap rates for core product in the U.S. office CBD



Source: JLL Research

Cap rates for core product in the U.S. office Suburbs

Source: JLL Research

Atlanta

Economy

Multiple engines of growth are operating in sync to give metro Atlanta an edge over competing markets as local employers are expanding. Employment growth is expected to outpace U.S. averages, despite a recent uptick in the metro unemployment and continue a post-recession decline. April's unemployment rate of 6.5 percent was the lowest since 2008, yet May's preliminary rate of 7.3 percent spiked due to a large influx of recent graduates and interest in summer work. Driving the metro's employment success is a healthy mix of hiring in technology, retail trade and leisure and hospitality. Of all sectors, though, professional and business services continues to be the most significant contributor to local payrolls with over 12,700 net additions in the past 12-month period. This sector is characterized by highly skilled and highly educated workers that are rewarded with higher pay – jobs that are the largest users of office space – certainly a positive for the metro area.

Market conditions

Due to the improving economic environment, occupiers are finding an increasingly supply-constrained office market as there are fewer ideal options to select from. Where space is available, it's being spoken for more quickly. Landlords are taking note. An analysis of large blocks reveals a significant number of same-space price increases quarter-over-quarter. Of the available 118 blocks sized 50,000 square feet and greater, 10 percent saw rate increases averaging $0.82 per square foot. Landlords of both Class A and B buildings in the Downtown and Northwest submarkets were most aggressive. Although demand in terms of tenant requirements has remained relatively flat, many anticipate new requirements coming to market over the second half of the year – exacerbating the supply-constrained market.

Specific leasing activity over the second quarter reveals that much of the larger 50,000-square-foot and up new deals were concentrated in the Northeast, North Fulton and Central Perimeter submarkets. Tenants in the health care and tech sectors appeared to be most active in this category. Among the largest recent transactions was Kimberly-Clark's new health care business unit signing for 176,000 square feet at 5405 Windward Parkway in Alpharetta. Additionally, health care records company Allscripts and financial tech company Altisource accounted for another 100,000 square feet of the year's leasing activity.

Outlook

Looking forward to the second half, we expect the percentage of renewal deals completed in the metro area to increase, as new inventory coming to the market is very limited. Additionally, office activity in Midtown could easily pick up as the submarket aligns access to an educated millennial workforce, available quality blocks of space and a unique 24-hour vibrancy – elements attractive to firms seeking to refresh their image and expand access to top talent.

- Ryan Harchar
Senior Research Analyst, Atlanta

Austin

Economy

In recent years, Austin's economic growth has consistently outshined the nation and this quarter was no exception. The city's abundance of young talent, low taxes and diversity of industries continue to make Austin one of the best places to live, work and invest. This year to date, Austin has seen employment growth of 3.2 percent—well over twice the national average—adding 882,275 nonfarm payroll jobs. The unemployment rate in Austin for April was 3.8 percent—the lowest among the nation's 50 largest metro areas and over 2 percentage points lower than the national rate of 6.3 percent.

Market conditions

The Austin office market continues to experience tight market conditions, but a slight fall-off in demand was mainly attributable to how tight the market has become in recent months. This year to date, Austin has experienced total net absorption of 188,105 square feet, a 41.0 percent decline from this time last year. Low marketwide vacancy contributed to declining absorption numbers, as it has become increasingly difficult for tenants to locate ample, quality space to occupy. Overall vacancy continued its decline, ending at 12.2 percent this quarter—an incredible 8.0 percentage points lower than the same time in 2010. Stunted by dwindling availability, leasing activity was below average this quarter, coming in at 818,718 square feet. This brings the total to 1.7 million square feet leased this year.

In the CBD, vacancy in Class A and B office properties dropped to 8.5 percent this quarter, actually falling below 6.0 percent for Class B product. The popularity of the area has continued to push rental rates upward. This quarter, the average asking rate in CBD was $40.67 per square foot: $1.38 per square foot more expensive than this time last year, and $7.63 per square foot more expensive than five years ago.

Outlook

This year, Austin's skyline is undergoing transformative growth. New construction in downtown Austin is set to deliver over 920,000 square feet of office space this year, 74.0 percent of which is spoken for.

The lack of available space in CBD has prompted several large tenants to look to Austin's suburban markets. Austin's suburban growth has also attracted the attention of investors. There was heavy activity in the Southwest submarket this quarter. Clarion Partners acquired the two-building, 177,624-square-foot Lionstone Portfolio for $51.4 million, and San Francisco-based Drawbridge Realty Trust purchased the 164,700-square-foot Overwatch Campus for a $42.5 million.

- Brittany Maki
Research Analyst,
Austin

Baltimore

Economy

The Baltimore economy continued to grow at a modest pace in the second quarter with nonfarm employment rising 1.5 percent year-over-year. Consistent job growth has helped bring the unemployment rate down to 6.0 percent, which is a five-year low and well below the national average of 6.3 percent. Professional business services (PBS) and education and health remained the most important expanding office-occupying segments of the economy as the sectors added a combined 12,300 jobs compared to last year. Government payrolls, however, fell by 0.8 percent as the second largest sector of the Baltimore economy continued to shrink.

Market conditions

Occupancy gains focused on Class A product in the southern suburbs in the second quarter as market conditions gradually tightened. Net absorption during the quarter totaled just 10,135 square feet with growth associated with Fort Meade and cybersecurity in Howard and Anne Arundel Counties offsetting contraction in Baltimore City. While select submarkets showed considerable rental rate growth and strong tenant interest, overall asking rates rose just 0.2 percent and leasing activity lagged the prior year.

In Baltimore City, a large move-out by an educational user at 100 N Charles Street caused vacancy in the CBD to spike to 18.8 percent, causing the gap between well-occupied waterfront Pratt Street and the rest of the CBD to widen. Ongoing conversions of functionally obsolete office buildings into apartments, however, have helped to bring down vacancy from historical peaks off Pratt Street along Baltimore and Charles Streets, which have suffered from a longstanding flight to quality by tenants shifting south and east.

Activity in suburban Baltimore focused on Columbia and the BWI market where over 200,000 square feet of net absorption occurred during the quarter and additional construction will break ground in the coming months. While renewals comprised the majority of leasing in Columbia, tenants in the market remained active with limited large blocks of Class A space over 20,000 square feet. Vacancy in BWI/Anne Arundel County dropped below 10.0 percent as KEYW preleased 88,500 square feet from COPT in new construction on Milestone Parkway.

Outlook

With the construction pipeline 80.0 percent preleased and hesitancy by developers to break ground speculatively, market dynamics should continue to gradually shift toward favoring landlords. Increased activity from government contractors and cybersecurity firms will benefit the Columbia and BWI/Anne Arundel County markets as they remain the centers of growth in the region.

- Patrick Latimer
Senior Research Analyst, Baltimore

Boston

Economy

In looking at job growth over the first five months of the year through May, jobs appear to have been added at half the pace of the same period a year ago. Ten thousand new jobs have been added, compared to 21,000 over the same period a year ago. With the unemployment rate reaching a multiyear low of 5.3 percent, the question will be if jobs will take longer to fill. Nationally, there are the same number of postings today on Monster.com as there were in 2008, so the intention to hire is there.

Market conditions

Fundamentals were mixed this quarter. In Greater Boston, the vacancy rate increased by 10 basis points to 13.7 percent, but the availability rate declined 30 basis points to 19.3 percent. A few large spaces that had been occupied, but known to be available, were vacated. Two of those long-anticipated listings were State Street and AIG's spaces that together account for almost half a million square feet of space Downtown.

Average asking rents in the CBD hit the $50.00 per square foot mark this quarter – $50.67 per square foot precisely – a level unseen since early 2008. Rents in Cambridge surged this quarter with 1.5 million square feet under new ownership and a vacancy rate that has dipped to a new low of 5.7 percent. In the suburbs, the fortress submarkets continued to outperform. The delivery of the 425,000-square-foot Keurig headquarters building in Burlington occurred this quarter and is fully occupied.

On the construction side, a speculative development project is under way at 4 Burlington Woods for 100,000 square feet (Gutierrez Company) – a unique phenomenon, so far, in this cycle.

Outlook

The outlook remains bright. If hiring slows because of a talent gap, incomes will start to rise at a quicker pace putting more dollars in consumers' hands. While this slows growth in some ways, it accelerates it in others.

- Lori Mabardi
Vice President Research, Boston

Charlotte

Economy

By and large, Charlotte's economic performance and future demographic trends are a shining light for the region. However, recent economic development struggles, paired with an unfavorable job announcement by Bank of America, have put a short-term cloud over the area. Two major office tenants, Lash Group and LPL Financial, made cross-border moves to Fort Mill, SC, due to favorable incentive packages and Bank of America announced the layoffs of 540 mortgage workers, both during the last two weeks of the quarter.

All the while, unemployment has fallen to 6.0 percent, down 2.0 percent from the 8.0 percent the MSA experienced this time last year. Some employment growth has come from large companies with a local presence, as they have continued to transfer employees from other regions due to favorable costs of doing business in North Carolina.

Market conditions

The main transition in Charlotte's market conditions this quarter has come on the development front. The first CBD development to break ground since the recession, 300 S Tryon, is in final planning stages. Babson Capital has committed to take 200,000 square feet in the 630,000-square-foot project. Similarly, the largest speculative project since Ballantyne's Gragg and Woodward building is under way in SouthPark. Lincoln-Harris has broken ground on one of two Capital Towers buildings that will total approximately 500,000 square feet.

Asking rates are continuing to push upward as landlords are able to drive rates due to competition for space. Furthermore, strong absorption for the second quarter has helped to etch vacancy down by 50 basis points.

Outlook

Charlotte's office market is poised for high growth over the next few years due to a growing population and the development projects currently under way. For the immediate future, Charlotte will continue to become more landlord-favorable as existing tenants expand and new deals come to the market.

- Taylor Allison
Research Analyst, Carolinas

Chicago

Economy

The number of unemployed workers in the Chicago metro likewise declined for the third consecutive month in May and at 7.2 percent, the unemployment rate is the lowest it has been since December 2008. During the economic recovery cycle, the local employment market has always improved during the winter months after experiencing a post-holiday contraction, but this magnitude of improvement is recently unprecedented. Also, the rising number of unemployed workers typically suffers in the summer months as a result of college and high school graduates entering the labor force. While the labor force has started to expand, the growth effect on unemployment is likely to be seen in the coming months of the third quarter.

Market conditions

The market continued its pace of tightening with 767,674 square feet absorbed in the second quarter, bringing the total for the year to 935,525 square feet. As a result, vacancy declined to 18.0 percent. The average gross asking rent increased to $28.22 per square foot and hit a high-water mark for the second consecutive quarter. Rents for Viewspace in the CBD (floors 20 and above within the market's top performing buildings) increased by $0.17 per square foot to $39.40 per square foot and vacancy declined by 60 basis points to 12.3 percent.

Downtown Chicago continues to attract strong investor interest. There were four CBD building sales in the last 90 days totaling $528.5 million or an average of $200 per square foot. The Central Loop submarket experienced the greatest share of sales activity with two buildings, or 1.6 million square feet, changing hands in the past three months.

After a strong start to 2014, the suburbs continued to push into positive territory, while leasing activity also increased with the largest lease of the year signed by AbbVie, a pharmaceutical research and development company, owned by Abbott Laboratories. The company will be moving into close to 500,000 square feet of sublease space in Lake County at 26525 N Riverwoods Boulevard. Absorption numbers grew in the second quarter reaching 619,000 square feet. There were several large moves that contributed to this positive growth from companies such as Zebra and Omron.

Outlook

CBD office leasing activity has gained momentum in the first half of the year, an indicator that absorption will increase in the coming quarters as those leases commence and vacancy will continue to decline. There still remains a limited number of large tenants in the market so we expect the 25,000- to 50,000-square-foot range will continue to be the sweet spot for leasing activity. With 8.1 million square feet of space, across 11 properties, available for sale in the CBD, the sales market is expected to continue its robust pace through the coming quarter.

Chicago's suburban office market will retain its competitive rent environment heading into the second half of 2014. With only a few large tenants in the market, including Grainger, CDW and Quest Diagnostics, leasing activity will heavily rely on mid-sized deals. With vacancies continuing to decrease the market will carry on its slow flip toward a landlord-favorable environment.

- Robert Kramp
Senior Vice President, Research, Chicago

Cincinnati

Economy

The Cincinnati economy continued on its impressive run of recovery as of late, posting an annualized gain of 21,300 jobs through the month of May, bringing total nonfarm employment to 1,054,800 payrolls. Meanwhile, unemployment has shrunk to 5.1 percent, 170 basis points lower during the same time frame last year. Cincinnati's office employment sectors have added 4,000 jobs, year-over-year, led by the typically strong professional and business services sector, which posted an annualized gain of 2,900 jobs.

Market conditions

The Cincinnati real estate market continued its momentum into the second quarter, posting just over 200,000 square feet of absorption, while lowering total vacancy 30 basis points to 20.3 percent. Despite this positive note, vacancy stands 1.9 percent higher over the same period last year. Cincinnati Bell secured 220,000 square feet in the Atrium Two building at 221 E. Fourth Street in what may be the largest lease, year-to-date. Cincinnati Bell will relocate 600 workers from Norwood into the Class A building. General Electric has also recently done much to excite downtown Cincinnati, leasing 80,000 square feet of temporary space at the Atrium Two building to house several hundred employees prior to the construction of its global operations center at The Banks. Meanwhile, Catholic Health Partners has chosen the former Showcase Cinemas site in Bond Hill to house its new, 350,000-square-foot headquarters, a space it hopes to move into by the second quarter of 2016.

Construction projects continued on a hot streak through the second quarter, with nearly 1.5 million square feet currently under construction or renovation. New construction announcements in the second quarter included the planned development of the 106,000-square-foot Summit Woods IV building in Sharonville, a project which saw JLL's involvement in securing a 28,000-square-foot lease for CH2M Hill to help kick start construction. In addition, Steiner and Associates began construction on its 75,000-square-foot office building along with 600,000 square feet of retail at the mixed-use Liberty center development. Also of note, Shumacher Dugan Construction Inc. has commenced construction on Union Centre Office Park II, a three-story, Class A, 48,000-square-foot speculative office building located in West Chester.

Outlook

Tour activity and leasing volumes will likely remain stable through the latter half of 2014. While a number of large tenants have already staked their claim around the Cincinnati market, a handful of smaller tenants will keep leasing volume active. Recent transactions such as General Electric's planned construction at The Banks and Cincinnati Bell's consolidation at Atrium Two have done much to excite tenants about the downtown area, indicating that the CBD is still a competitive and sought-after location.

- Cody Brooks
Research Analyst,
Great Lakes

Cleveland

Economy

As of May, total nonfarm employment in Cleveland stood at 1,041,800 workers, representing an increase of 6,800 jobs or 66 basis points year-over-year. Meanwhile, unemployment decreased to 6.6 percent, down 0.6 percentage points year-over-year. Job growth among the office-using employment sectors has been stagnant over the last year, recording an annualized net reduction of 200 jobs in May. Professional and business services posted the largest gains among the four sectors, adding 1,200 to payrolls year-over-year, while financial activities recorded the largest reduction in workforce, down 1,300 jobs year-over-year.

Market conditions

Leasing activity and touring velocity held steady across the metro in the first quarter. The largest lease of the quarter was signed by the law firm BakerHostetler, which inked a deal for five floors at Key Tower in downtown Cleveland, though the firm won't move into the city's tallest office building for another two years. The firm expects to move its Cleveland attorneys and office staff, a total of about 300 employees, to 115,000 square feet at Key Tower in 2016 when the firm will celebrate the 100th anniversary of its founding in Cleveland. The law firm now has 14 offices across the country and nearly 900 attorneys. BakerHostetler signed a 15-year lease for floors 17 to 21 at Key Tower, absorbing much of the space given back by Key Bank when it signed a long-term renewal in mid-2013.

Meanwhile, construction activity is scheduled to ramp up over the spring months as a number of projects are set to break ground, the largest of which is the new American Greetings' headquarters, which when completed is expected to be north of 500,000 square feet. The new American Greetings' headquarters is part of a larger third phase of development at Crocker Park, a mixed-use venue on the west side of Cleveland. Along with the new headquarters, 300 new rental apartments, a hotel and over 220,000 square feet of retail space are planned. The combined project will cost $350 to $400 million and is expected to be completed in the summer of 2016.

Outlook

Large blocks of space among Class A assets remain near nonexistent across the metro, which will limit large occupiers to either renew or enter into built-to-suit projects such as Omnova and Arhaus have recently done. For this reason, the second office phase at the Flat's East Bank is likely to kick off within the next 12 months. Given the modest employment gains observed over the course of the last year, we forecast office tenant demand will move sideways over the coming months with activity primarily being with renewals or relocations.

- Andrew Batson
Senior Research Analyst, Great Lakes

Columbus

Economy

As of May, the Columbus economy has posted an annualized gain of 8,500 jobs, bringing total nonfarm employment to 983,400 payrolls. Meanwhile, unemployment currently sits at a mere 4.4 percent, a decrease of 160 basis points over the same time frame last year. The office employment sector, typically a strong job creator for Columbus, has cooled since the beginning of year, posting an annualized loss of 300 jobs. May's year-over-year decrease in jobs was largely offset by the capital city's government sector, which saw an annualized gain of 250 jobs.

Market conditions

Leasing activity experienced a slight hiccup in the second quarter, resulting in negative growth of 3,540 square feet of absorption due largely to a departure from Class C space. Renewals were prevalent through the second quarter, with UnitedHealthcare's renewal of 83,000 square feet of Class A space at 9200 Worthington Road proving to be one of this quarter's largest transactions. Pennsylvania-based NCO Financial Systems' renewal of 43,000 square feet at 5626 Frantz Road in the Dublin submarket also provided another significant transaction. Total vacancy sits at 15.5 percent, an increase of 30 basis points from the previous quarter, yet a decrease of 150 basis points, year-over-over. The pipeline is expected to remain busy looking ahead as a number of tenants still scouting the market begin to settle down, particularly upon the delivery of multiple speculative projects through the latter half of 2014.

Construction activity continues to be a point of interest in the Columbus real estate market, with over 900,000 square feet currently under construction and over 300,000 square feet of speculative office space to begin construction through the end of the year. A number of build-to-suit projects have made headlines through the second quarter, including Nationwide's decision to build out a massive, 500,000-square-foot complex in Grandview Yard to house roughly 3,400 workers, and AEP Transmission's announcement of the planned relocation of its Gahanna headquarters into a new, 195,000-square-foot building in New Albany.

Outlook

Touring activity and leasing volumes are expected to hold steady during the latter half of 2014, as the delivery a number of new, speculative projects through the end of the year will provide fresh options to tenants currently floating in the market. Vacancies have now consistently hovered 100 basis points or more below year-over-year levels, and landlords will now consider dialing back concessions as they seek to gain leverage over tenants.

- Cody Brooks
Research Analyst,
Great Lakes

Dallas

Economy

Growth remains high, with DFW consistently one of the best markets in the nation. The latest figures show job gains of 115,900 over the past 12 months, across a diverse array of industries. The market is in growth mode with new home construction up 60.0 percent from last year, a seven-year peak and almost 25,000 apartment units under construction, among the highest in the nation.

Market conditions

Dallas recorded 340,000 square feet of positive absorption in the second quarter, much in line with last quarter's 380,000 square feet. Although this quarter was slower than last year's pace, the recently announced 1 million-square-foot Toyota relocation to Far North Dallas from California and continued interest in DFW from other major users, sentiment is very high for the outlook for the next two to three years. Despite the healthy year-to-date net absorption, total vacancy did not move much from the mid-19.0 percent level, due to about 700,000 square feet of new construction completed this quarter (almost all of which has not been preleased). Steady demand and lower than normal vacancy has continued to put upward pressure on rates, which have risen 4.7 percent since the end of 2013.

Outlook

The construction pipeline, growing in recent quarters, currently stands at 4.3 million square feet. While this may appear high, roughly half of the space is build-to-suit or preleased. Given the 6 million square feet of net absorption over the past two years, and the known commitments for space over the next couple of years, the new supply seems appropriate to accommodate near-term growth projections. With a two-year lag time for most office construction projects, continued upward pressure on rates is expected for most submarkets until new supply becomes more in line with demand.

- Walter Bialas
Vice President, Research, Dallas

Denver

Economy

Already one of the nation's strongest economies, most second quarter indicators point toward continued economic expansion in Denver. Resilient office-using employment rose by 13.2 percent since hitting a recession period trough at the end of 2009. As investment in the energy and technology sectors increased, nearly 2,800 additions to payroll this quarter drove the number of white collar jobs to 4.7 percent above the prerecession peak—a margin matched by few other metropolitan areas in the U.S.

Market conditions

Increased tenant demand courtesy of robust growth in office-using jobs and the arrival of new businesses translated into the seventh straight quarter of positive net absorption, up 19.2 percent over last quarter. In a sign that flight-to-quality may have temporarily slowed, downtown Class A total net absorption was negative—only its second quarter in the red since the beginning of 2012. Activity throughout the CBD slowed during the quarter, and vacancy levels ticked up slightly across each building class. Despite this, the CBD rental rate—already at a record high—climbed farther up, partially attributable to limited large block availability, especially in Trophy-quality assets. Some of the market's tightest fundamentals can be found in suburban markets, particularly in the Southeast. Leasing activity is trending upward, and tour activity, notably in the Southeast Suburban submarket, has increased enough that it is perhaps the most active area in the entire metro. Vacant space throughout all suburban markets fell by nearly 5.0 percent last quarter, translating to a vacancy rate that dropped by 70 basis points. Asking rents in the suburbs rose by 4.8 percent during the past 12 months.

Denver's development pipeline is heating up with investors throughout the metro jockeying for every and any asset remotely close to LoDo and Union Station. Lately, return on investment yields are promising enough that investors have sought even lower class assets farther from the CBD core. As speculative construction returns, rental rates will climb. Owners who embrace more creative, open office space should gain the most traction with occupiers.

Outlook

Broad-based, measurable job growth is expected through the end of 2016. This is reason enough to project further firming in the local office market. The rapid development of fossil fuels exploration in the Denver-Julesburg Basin will be increasingly impactful moving forward. New companies will enter Denver during the next couple of years, making job opportunities that much more plentiful. Tenant demand should grow. Because energy companies usually seek top-tier space in the market's most sough after areas, Class A lease rates will climb further in the quarters ahead.

A watchful eye should be kept on how businesses may opt for higher concentrations of employees in smaller footprints. If increased space efficiency becomes the norm rather than the exception, absorption could slow.

- Amanda Seyfried
Research Analyst,
Denver

Detroit

Economy

As of May, total nonfarm employment in Detroit stood at 1,879,300, representing a decrease of 3,300 jobs or 18 basis points year-over-year. Meanwhile, unemployment decreased to 8.0 percent, down one full percentage point year-over-year. Office-using employment sectors, though, were in negative territory as of May, recording an annualized net reduction of 5,500 jobs. Still, professional and business services posted the largest gains among the four sectors, adding 3,700 to payrolls year-over-year; however, those gains were largely overshadowed by the financial activities employment sector, which recorded an annualized reduction of 5,600 jobs.

Market conditions

The Southfield Town Center, the second largest office complex in metro Detroit, officially has a new owner. New York City-based 601W Companies closed on the $177.5 million purchase of the 2.2 million-square-foot office complex in the second quarter. The company plans to spend between $40.0 and $50.0 million on renovations at the complex, located in the Southfield submarket. Improvements at the office complex are expected to begin within the next 60 to 90 days, with a focus on issues such as lobbies and elevators, particularly at 3000 Town Center. Some of that capital will also be used for build-out incentives to attract tenants. With the improvements, 601W looks to increase occupancy to the mid- to upper-80s over a five-year period. The complex is currently 32.0 percent vacant.

Leasing activity remains quite active across the metro, particularly in the northern suburban submarkets. In the second quarter FirstMerit Bank relocated its Southeast Michigan headquarters to Two Towne Square, a Class A office building located in the Southfield submarket. FirstMerit Bank signed a 10-year lease with two five-year options on 38,000 square feet. Meanwhile, in the Troy submarket, ThyssenKrupp Automotive plans to relocate and expand its offices within the Troy Place office complex. The company's new offices will span 23,000 square feet of the Class B office building located at 3331 West Big Beaver. ThyssenKrupp signed a five-year lease for the space and gained signage rights to the building.

Outlook

Total vacancy has continued to decline since hitting a record high of 29.2 percent in the first quarter of 2011. With an improving economy and increasing space needs by office tenants, total vacancy is expected to continue its downward trend through 2014. That said, over 15.7 million square feet of office product remains vacant, ensuring tenant-favorable conditions across most submarkets for several years. Rents are expected to increase modestly over the next year, with the concentration of gains taking place among Class A properties.

- Andrew Batson
Senior Research Analyst, Great Lakes

East Bay Suburbs

Economy

The two-county region gained 23,200 jobs year-over-year, while unemployment fell to 5.6 percent in May, 70 basis points lower than the national rate of 6.3 percent. In April 2014, all of the jobs lost in the previous recession were recovered with strongest gains in the education and health care services, construction, and trade, transportation, and utilities sectors of employment.

Market conditions

Investor interest in the Tri-Valley is increasing marked by a recent surge in sale transactions - notably the sale of the Class A office campus, California Center, in Pleasanton. Tenant demand in the Tri-Valley is strong with more than one million square feet of active requirements. There are five tenant requirements of 100,000 square feet or greater. In the latter half of 2014, the Tri-Valley should experience robust leasing activity as one of these large corporate users lease up the six large blocks available, and in turn, signal other touring users to follow.

The North 680 Corridor saw strong leasing activity among tenant requirements between 5,000 to 10,000 square feet. Downtown Walnut Creek saw rental rates increase 5.1 percent in Class A space and certain landlords are already tightening on concessions and free rent offerings for spaces that are considered desirable due to walkability to BART and the amenities surrounding the Broadway Plaza mall.

Outlook

With strong tenant demand, the South 680 Corridor should see large blocks of space dwindle with the signage of one or more major leases later in 2014 and early 2015. Downtown Walnut Creek and Pleasant Hill-BART will continue to see office fundamentals tighten and move to landlord-favorable in the next 6 to 12 months due to lack of available space. Market momentum and forecasts indicate a strong year ahead as job growth continues to develop, driving further economic growth coupled with a healthy housing market.

- Hailey Harrington
Research Analyst,
Oakland - East Bay

Fairfield County

Economy

The second quarter of 2014 injected some momentum into the local labor market after many quarters of lackluster growth. Not only did overall labor market fundamentals improve, but they improved in a widespread manner, penetrating areas of the economy in need of a boost. Office-using sectors, which have not recorded a net gain in jobs since the end of the recession, finally added 200 jobs in the last quarter, with a total of 500 positions since this time last year. There also have been recent announcements of expansionary measures by local companies such as GE and Charter Communications, which will help drive improvement in the local economy and tightening in the office market. At the same time, the uncertainty around the UBS and RBS headquarters looms, an obvious risk for regional stability.

Market conditions

In line with modest improvement in office-using employment, second quarter office market fundamentals showed stability and even some tightening throughout select submarkets. Moreover, drivers of the recent activity emerged from a broad range of sources – not just financial services, but from industries such as manufacturing / distribution, technology and creative services. The variety in activity helped fuel nearly 900,000 square feet in leasing volume in the second quarter alone, bringing year-to-date volume to 1.6 million square feet – the highest mid-year total since 2010. Major leases of more than 100,000 square feet are characterizing activity this year. Deloitte's 117,700-square-foot lease kicked of the year, followed by UnitedHealthcare Group's 107,688-square-foot lease and Datto's 100,000-square-foot expansion in the second quarter. Other major leases were dominated by a health services and media tenants. Leasing also continues to absorb long-vacant blocks. Stamford Square, for instance, has recorded 94,000 square feet of positive net absorption year-to-date, driving more than 250,000 square feet in positive direct net absorption for the Stamford market so far this year. While the vacancy rate in Stamford remains elevated, the absorption has allowed the overall vacancy rate to come back down to the low 20.0 percent range from a high of more than 26.0 percent in the third quarter of 2013.

Outlook

There are several million square feet in requirements for space throughout Fairfield County, and the requirements come from a broad range of sectors, which will continue to drive office market diversity. Also related to the issue of diversification, the city of Stamford recently hired a new economic development director who, among other directives, will aim to further diversify the industry mix in the area away from sectors that show consistent weakening. This measure, combined with recent trends, is vital to tightening local office market fundamentals.

- Erin Patterson
Research Manager,
Fairfield County

Fort Lauderdale

Economy

The economic picture in Broward County has been brighter than the region as a whole coming out of the recovery, but job gains have slowed over the past few months, despite a downward trend in the unemployment rate. The unemployment rate for Broward experienced a slight month-over-month uptick to 5.2 percent (nonseasonally adjusted), which is down only 20 basis points since January; however, the number of employed persons actually increased by nearly 12,000 compared with the previous month. Therefore, much of the increase in the unemployment rate can be attributed to the nearly 15,000 people who entered the workforce in the month of May, as recent college graduates began seeking employment. Still, by comparison, Broward County's unemployment rate is 90 basis points lower than the state and nation. The employment picture is also much improved compared to this time last year.

In terms of raw job gains by sector, the financial sector was the only office-using sector to post positive gains, however. Professional and business services, for example, saw a decline of 0.4 percent or 400 lost positions, and the information sector remained flat compared with the previous month; meanwhile the financial sector posted a gain of 800 new jobs. Despite lack luster gains in May, office-using employment has posted positive growth every month so far this year.

Market conditions

After several years of stagnation following the recession, the Broward County office market has rapidly been recovering over the previous 8 to 12 months, and much of that recovery has been felt over the first half of 2014 – primarily the result of two factors: strong demand within the CBD and large blocks of inventory being taken off the market – and occupied – by owner-users in the suburbs.

Last year, with the CBD relatively discounted compared to years prior, many sizable suburban tenants shifted toward space Downtown, such as Becker and Poliakoff and National Beverage. That trend continued this year as Prolexic Technologies and Greenspoon Marder both took occupancy of 33,000 and 46,500 square feet, respectively, after signing leases last year. These large occupancies, in addition to some smaller tenants, brought Class A vacancy down lower than anticipated this quarter. Last quarter, we projected Class A vacancy to fall to 17.5 percent; however, total vacancy for that product currently sits at 16.9 percent, a 310-basis-point decrease since year-end 2013 and in line with vacancy levels seen before the recession. To gain further perspective, vacancy is currently 530 basis points lower than one year ago and 870 basis points below its peak at year-end 2011. As a result, Class A rents are at near peak levels at $33.31 per square foot (full service), with rents along Las Olas Boulevard reaching $40.89 per square foot, their highest on record.

Despite these tenants migrating from the suburbs, suburban vacancy has not significantly risen. In fact, the opposite has happened, as vacancy fell to 17.7 percent, primarily due to tenants expanding operations and/or moving into their newly acquired buildings.

Outlook

The dynamics downtown are already beginning to shift as vacancy is declining and few large and quality availabilities are still on the market. We expect leverage to shift to benefit landlords in the latter portion of next year – if not sooner. A similar situation will occur in the western submarkets of Sawgrass and Southwest Broward, and to some extent Plantation, but Cypress Creek should remain a tenant's market for the foreseeable future.

- Marc Miller
Senior Research Analyst,
Fort Lauderdale

Hampton Roads

Economy

The government spending increases that stabilized the Hampton Roads economy during the recession have been reversed, and tighter federal budgets have impacted local employment. While growth in trade, education and health care sectors with modest requirements for professional office space boosted overall regional employment by nearly 500 jobs during the first half of 2014, employment in office-using industries declined by 1.4 percent. The second quarter saw ground break on the Main, a $126 million development in Downtown Norfolk that incorporates a 50,000-square-foot convention center and a 23-story luxury Hilton hotel, and a few blocks away, the construction phase of the Waterside Marketplace's redevelopment will begin soon. Virginia Beach and the state of Virginia have agreed to split the cost to extend the Tide light rail line from the Norfolk-Virginia Beach border east to Town Center. If completed, the extension would link Downtown Norfolk and the Virginia Beach CBD, the region's two densest and most prominent office submarkets.

Market conditions

Increasing demand driven by economic recovery was tempered by tenant downsizing during the first half of 2014. While individual reductions were moderate (usually ranging from 5.0 percent to 15.0 percent of leased space), the total amount space relinquished has kept absorption modest over the first half of the year. The only major project nearing completion, the Virginia Beach CBD's newest office tower (4525 Main Street), signed its namesake tenant Clark Nexsen and the Virginia Beach Department of Economic Development, which together have taken 45.6 percent of the 234,000-square-foot tower. When delivered next quarter, the tower's unleased space will boost the region's total Class A vacancy by approximately 1.0 percentage point (89,000 square feet). Armada Hoffler, the developer, forecasts stabilized occupancy by the first quarter of 2016.

Outlook

Low leasing volume in the first half of 2014 and a continuing move by occupiers to more efficient footprints will keep absorption modest over the next 12 months. With no major expansions in the pipeline, renewals and consolidations will drive leasing. As the market continues to move a handful of new deals will surface and vacancy rates will continue their slow decline. Combined with a narrowing supply pipeline and nonexistent speculative development, this will help the Hampton Roads market return to landlord-favorable conditions by the end of 2015.

- Geoff Thomas,
Research Analyst,
Richmond

Houston

Economy

Despite an expected slowing of job growth, Houston added 85,800 new jobs in the 12 months ending in April of 2014 and unemployment within Houston reached a six-year low with a rate of 4.6 percent. Houston's energy and energy service firms continue to be able to attract and retain top talent thanks to Houston's designation as a top city for young professionals and young families. With this influx of new residents, growth is also in sectors such construction and housing here in Houston, with Houston's housing inventory at an all-time low of 2.6 months' worth of stock on hand.

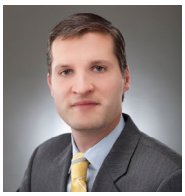
Market conditions

The second quarter's nearly 966,000 square feet of positive absorption marked the end of seven-digit quarterly absorption by the slimmest of margins. Houston's Class A rental rates once again gained nearly a full dollar from the prior quarter and stand at $36.04 per square foot full service gross at the midpoint of 2014. Houston's six core submarkets continued to lead the way in positive absorption, but the second quarter reflects a gradual shift to growth in additional submarkets as well. The six submarkets accounted for nearly 61.0 percent of all the absorption in the quarter, or roughly 590,000 square feet. This is down from the first quarter's 78.0 percent, as submarkets such as Sugar Land, FM 1960, and Northwest Houston all posted strong absorption numbers. While over 600,000 square feet of new office product delivered in the quarter, submarkets including Greenway Plaza, Energy Corridor and the Woodlands all continue to have single-digit total vacancy rates. Office buildings under construction throughout Houston eclipsed 15 million square feet during the second quarter of 2014, and while the majority are found in the Energy Corridor, the Woodlands, Westchase, and the CBD all have over 1.5 million square feet under way.

Houston's office sales activity remained strong in the second quarter with multiple Class A properties trading hands. As an example of the strength of Houston, Energy Crossing I and II, a combined 557,000 square feet of Class A space with the Katy Freeway submarket, was purchased by Invesco in the quarter for $305 per square foot.

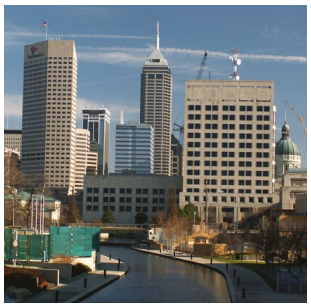
Outlook

As 2014 reaches its conclusion and 2015 begins, Houston is poised to continue its robust office growth and in the short- and mid-term maintain its landlord-favorable nature. With large scale Fortune 500 companies such as Exxon Mobil, BP, Occidental and others expanding their footprint within the Houston market, it remains to be seen how quickly the market will begin its inevitable shift to a tenant-favorable nature due to the supply coming on in coming years.



- Graham Hildebrand
Research Manager,
Houston

Indianapolis



Economy

Unemployment in the Indianapolis-Carmel MSA fell to 5.0 percent, which is its lowest point since July 2008 and is a 60-basis-point drop month-over-month and 80-basis-point drop year-to-date. The metro continues to exhibit a better unemployment rate than both the state and the overall United States as it has consistently over the last 18 months. While this trend of lower unemployment in the Indianapolis area was initially due to a shrinking of the labor force, there has been a change in movement as the number of workers has increased over the past six months (and the unemployment rate has been dropping due to job creation). The professional and business services and financial activities sectors have been adding jobs at a healthy clip of 4.8 and 5.1 percent, respectively, over the past 12 months, as technology startups have been absorbing office space in the CBD. For example, software developers such as Gusto and Yikes have moved their small companies to downtown Indianapolis and begun to hire workers to aid in the company's growth.

Market conditions

Overall vacancy in Indianapolis decreased 30 basis points to 14.1 percent. However, overall rents decreased by $0.18 per square foot to $17.54 per square foot led by the drop in rent for CBD Class A product due to an increase in both direct and total vacancy. Leasing activity was much stronger this quarter relative to last as more than 670,000 square feet of product was taken off the market by tenants. Much of the larger leasing activity occurred in the CBD as Cummins and Angie's List both signed for at least 70,000 square feet. Leasing activity in this quarter was notable in that six leases larger than 30,000 square feet were signed this quarter, while there were no leases of this size signed in the previous quarter. Furthermore, there were more new leases signed this quarter than renewals, showing growing tenant interest in the Indianapolis market. Investment sales activity was especially notable this quarter as the 1.2-million-square-foot Precedent Office Park in the Keystone submarket was sold to LaSalle Investment Management. The 21-building portfolio disposition was the largest office transaction in Indianapolis since the Precedent sold back in 2005.

Outlook

Vacancy in the CBD is expected to decrease very slightly over the next 12 to 18 months. There have been many residential projects under construction in the CBD over the past year where lower-quality office product is being converted into apartments and student housing, and the decrease in supply is expected to bring about a lower CBD vacancy in the next few quarters. Tenant demand, especially for larger spaces, is expected to remain clear as there are currently 11 prospects out primarily in the suburbs for more than 50,000 square feet. According to recent forecasts, real economic growth should approach 3.0 percent in the United States, and this should impact companies as they hire more workers and expand or move into larger spaces.

- Ajay Patwari
Research Analyst,
Indianapolis

Jacksonville

Economy

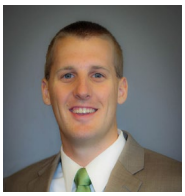
With one of the lowest unemployment rates in the state at 5.4 percent, Jacksonville appears to be making strides from an economic standpoint. Over the past 12 months, the unemployment rate has decreased 120 points largely due to professional and business services (PBS) along with construction jobs. Over the past 12 months, the PBS industry has grown 8.2 percent, while during that same time period, construction jobs have grown by 7.5 percent. Furthermore, six out of the 10 fastest growing industries in northeastern Florida are considered high-skill or high occupation positions. In addition to the labor sectors strengthening, the market is seeing an increase in talks of development for different property types in addition to what appears to be higher activity in the retail sector with firms like Cooper Hawk announcing they are coming to Town Center.

Market conditions

The suburban submarkets continue to outperform the CBD and it is happening on many different levels. First, nominal figures alone, the suburbs currently have lower vacancy rates and higher rents. Vacancy in the suburbs is currently at 14.7 percent, while in the CBD, it is nearly 22.0 percent. Second, the suburbs have absorbed a much larger portion of its inventory than downtown Jacksonville. Third, as a market exits a recession, the goal is to get back to pre-recession level. The suburbs are much closer, or have already achieved in some categories, to surpassing historical averages, while the CBD still has extensive work to do before it can say the same. Although the CBD is lagging in recovery, this affords the submarket an opportunity to leverage some of the things it can offer that the suburbs cannot. The most important available resource that downtown Jacksonville has right now over its competition in the suburbs is the availability of large blocks of space within the Class A product set. For a tenant needing 70,000 square feet or greater, there are twice as many options in downtown than there are in the rest of all the other submarkets combined for contiguous space.

Outlook

Opportunity still remains within certain segments of the market to obtain an advantageous deal, but the clock is ticking quicker as each day goes by. Conversely, in market segments like the Class A product set in the Butler Corridor, landlords have much more leverage. We expect more submarkets to have landlord-favorable conditions as each quarter passes.



- Ryan Vaught
Research Analyst,
Central Florida

Kansas City

Economy

The Kansas City metropolitan area overall had moderate expansion in late April and early May and the Federal Reserve is projecting solid expectations for growth in the coming months. Real estate and construction activity increased modestly in late April and early May. The May unemployment rate of 6.2 percent remained steady with the U.S. average of 6.3 percent.

Market conditions

It continues to be a tale of two markets. Demand for 20,000-square-foot and larger blocks of Class A space in Johnson County continues to expand, and with no new supply currently under construction, rates should continue to increase as landlords capitalize on pricing power.

Occupancy remains tight for the highly desirable blocks of Class A space in the CBD, as several Class A occupiers renewed their leases during the quarter. Activity in Class B space remains stagnant and much of the vacant inventory is spread across buildings that will require considerable capital to overcome obsolescence. The trend of hotel and multifamily conversion continues to remove undesirable office property from the market.

Marketwide there were no projects under construction at the end of the quarter; however, given the demand for Class A space in Johnson County, we anticipate that additional new construction should be announced in the third quarter.

Outlook

As local economy continues to improve, office market fundamentals will continue to tighten. Johnson County will lead the way, with CBD and the other suburban submarkets lagging. Sustained growth will be dependent upon the future performance of the technology industry as well as sectors such as architectural and engineering services. Market momentum and forecasts indicate a strong year ahead as job growth continues to develop, driving further economic growth.

- Gary O'Dell
Vice President, Brokerage
Kansas City

Long Island

Economy

Long Island's private sector job count is the highest ever at 1,103,300 in May. The May 2008 previous peak was 1,069,600 jobs compared to the May 2010 trough of 1,023,400 jobs. The Nassau and Suffolk County non-seasonally adjusted unemployment rate declined to 4.9 percent in May 2014, compared to 6.1 percent one year ago, according to the New York State Labor Department. The Long Island unemployment rate remains below the 6.3 percent seasonally adjusted national rate and the 6.7 percent New York state level. Leading industry sectors in Long Island, trade, transportation, and utilities, gained 6,700 jobs, while education and health services added 5,900 jobs year-over-year. Construction sector job count increased by 4,300 in May, the highest gain for that month since 1990. Among companies, the Hampton Business District is projected to create over 1,000 jobs, while Dealertrack Technologies new headquarters will add more than 350 jobs within the next four years. On the flip side, the contracting financial services industry lost 500 jobs in May as JPMorgan Chase recently announced layoffs.

Market conditions

Leasing velocity in Nassau and Suffolk County decreased approximately 40.0 percent year-over-year in 2014. However, in the second quarter, it is estimated 70.0 percent of new leases involved corporations expanding, contributing to positive absorption. Central Nassau and Western Nassau attracted the most leasing activity. There is strong demand for new corporate headquarters and a lack of Class A availabilities of 50,000 square feet or greater. Dealertrack Technologies is expanding to a built-to-suit 233,000-square-foot headquarters at 3400 New Hyde Park Road in North Hills.

On the sales side, sales volume decreased 14.0 percent year-over-year through second quarter. Yet, the average price per square foot increased 27.0 percent to $129 year-over-year.

At the new Hampton Business District, lack of availabilities in Eastern Suffolk is drawing strong activity. The planned nine-building complex totaling 440,000 square feet of office and industrial space broke ground in April.

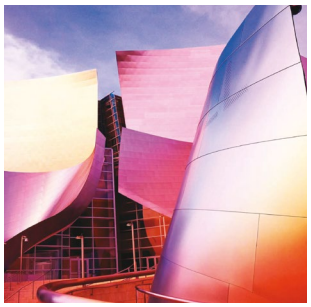
Outlook

A flight to quality is forecasted in 2014 as new product is developed and corporate expansions continue. Nassau Class A buildings are predicted to outperform in 2014 with rents up 4.4 percent year-over-year and vacancy down 10.6 percent. Long Island Trophy buildings have rebounded since the market bottom in 2010, with rents up 1.0 percent.

From a future industry growth perspective, Accelerate Long Island and the Long Island Emerging Technologies Fund have approved the distribution of $500,000 for five biotech and energy startups to boost the economy.

- Margaret Heavey
Senior Research Analyst,
Long Island

Los Angeles



Economy

Optimism surrounding the rebounding economy has been validated by improving employment numbers. Between April 2013 and April 2014, 91,300 nonfarm jobs were added to the Los Angeles region, resulting in a 2.2 percent expansion of the labor force. Educational and health services accounted for the largest job gains, but professional and business services (PBS) also expanded at an accelerated rate.

The Los Angeles area has also seen significant activity in its burgeoning technology and new media industry. As these startup firms mature in the Los Angeles area, merger and acquisition activity has heated up. So far this year, the market has seen roughly eight large-scale buyouts, in which large, traditional tech firms like Apple and media firms like Disney have acquired smaller firms they view as either competition or complementary industries. This bodes well for both the longevity of the industry in Los Angeles as well as a continued need for square footage.

Market conditions

Despite a sluggish start to 2014, leasing activity and tenant growth throughout Los Angeles remains stable and growing, with a few key industry types and markets outperforming the others; as of the second quarter, over a million square feet of positive absorption basinwide has already been recorded. Legal, financial services and engineering firms continued to account for a large share of the leasing activity in the Downtown and Tri-Cities markets and the entertainment, new media and advertising industries are still driving growth in the Westside and South Bay. This trend is expected to continue through 2014 as large users continue to show interest in the new creative developments of Playa Vista.

Capital markets activity remains buoyant with a large number of transactions closing during the second quarter. JP Morgan appears to have found a capital partner and is currently working through the restructuring process of the 3.2 million-square-foot Century Park Towers complex. Hines Real Estate Investment Trust is in talks to purchase a significant majority stake in the project, choosing to partner with the Hong Kong Monetary Authority as an equity source. Based on current negotiations, JP Morgan is expected to increase its one-third stake to as much as 49.0 percent. This current deal is expected to close by late summer.

Outlook

The market outlook continues to enhance for landlords and move a bit further away from tenants. Demand from entertainment, media and technology growth is expected to spill over to other sectors of the economy such as legal and financial services, which have been very resistant to increasing head count, but have done so more in the past six months than in the 36 months prior to that.

With regard to building sales, given the active sales market and vastly deep pockets of investors - including an increasing amount from overseas - expect a large number of Trophy CBD and well-stabilized suburban assets to trade before the end of the year especially as the recovery throughout the market continues and enhances over the next couple of years.

- Henry Gjestrum
Senior Research Analyst,
Los Angeles

Miami

Economy

Florida's unemployment rate (6.2 percent) tracked alongside the nation at virtually the same rate. Annual job growth for the state has exceeded the nation's with the last 3.75 years posting consecutive monthly job gains and reversing the previous three years of losses. Miami, whose unemployment rate is 6.6 percent, ranked second in the state with year-over-year job gains, growing 3.3 percent. Among employment sectors, the long-suffering construction industry has finally made a comeback posting an impressive 10.8 percent gain over the year – the highest growth of any employment sector. As for office-using industries, both professional / business services and financial activities showed good levels of growth during the same time period at 3.6 and 3.2 percent, respectively.

Market conditions

Mid-year statistics indicate the lowest direct vacancy posted since late 2009 with marginal sublets available marketwide thanks to improved levels of quarter-over-quarter new occupancy gains and leasing activity. This coincides with lower unemployment, higher job gains and labor force participation posted earlier in the quarter.

The highest of levels of year-to-date absorption were captured by the Class A segments of Brickell (CBD) and Coral Gables (Suburban) while the Airport's Class B segment dominated with over half of Miami's total positive new occupancy gains this year. The lion's share of leasing activity in 2014 was located in the city's four major submarkets, led by the Suburban Airport (400,000 square feet) and Coral Gables (207,000 square feet. The majority of submarkets in both the CBD and Suburbs posted increases in their respective direct asking rates as well during the year.

- Roberta Steen
Senior Research Analyst, Miami

Outlook

With the last 12 months signaling ongoing confidence among investors via heightened office sales activity, announcements for new development / redevelopment activity has likewise intensified. While still subject to change and likely to be predicated upon leasing demand, mid-year's refinements as to project sizes and delivery dates paint a picture of a competitive office market whose inventory, as of this writing, is anticipated to increase by the following over the next five years: 1.16 million square feet in the CBD and nearly 457,000 square feet in Suburban markets.

Milwaukee

Economy

According to the Business Outlook Survey conducted by the Metropolitan Milwaukee Association of Commerce (MMAC), business optimism toward the second quarter of 2014 surged. Of the businesses surveyed this quarter, 72.0 percent of them expected to see real sales gains. This is especially true in the nonmanufacturing sector. Overall 75.0 percent of the local businesses surveyed are particularly optimistic on future sales. The results also suggest that employment gains are likely to continue in the future. According to the most recent published data from the Bureau of Labor Statistics, Milwaukee nonfarm employment gained 12,300 jobs since April 2013 and nonfarm payrolls have experienced year-over-year gains for 43 consecutive months.

Market conditions

Milwaukee's office market is experiencing a substantial improvement in tenant demand as leasing velocity increased over the two quarters. While momentum is starting to shift slightly toward landlords, deals are happening as larger blocks of continuous space are becoming more difficult to find in both the CBD and suburban markets.

Demand did spark interest in new development within the suburban market. Irgens' Ruby Farms development announced plans for three proposed office buildings each with +/- 180,000 square feet. Irgens' has stated that this would be a multiyear development.

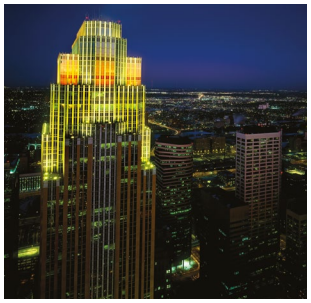
In addition, Irgens' 18-story office building has commenced constructed on part of the former U.S. Bank garage located at 833 East Michigan Street. Northwestern Mutual's planned 33-story office building located at 800 East Wisconsin Avenue is the largest development in Milwaukee and will be completed by 2017. Demolition of the existing office building began at the end of 2013. Currently nearing completion is the Pabst Business center in the Pabst Brewery. This development has recently finalized terms with an anchor tenant to lease about 12,000 square feet.

Outlook

We see Milwaukee's office market tightening with such measures as increased leasing volume with sustained levels of tenant demand helping to push Milwaukee through the final half of this year. As leasing fundamentals compress, along with a rebounding jobs market, occupancy gains and increased investment sales volumes are forecasted for the remainder of 2014. Improving Milwaukee employment conditions, such as a low unemployment rate and job growth, the real estate market is being fueled by the possibility of new construction within certain submarkets such as Brookfield and the Downtown area.

- Robb Russell
Senior Research Analyst, Milwaukee

Minneapolis



Economy

The Minneapolis-St. Paul MSA saw its unemployment rate decrease 80 basis points to 4.1 percent in April, currently the third lowest unemployment rate among U.S. metro areas with at least one million residents. Local office-using employment increased by nearly 7,500 jobs in April and based on historical trends is likely to increase over the next two months of reporting, particularly within the professional & business services sector. A recent survey of 241 companies conducted by the Federal Reserve Bank of Minneapolis and the Minnesota Department of Employment and Economic Development shows business confidence on the rise in Minnesota with 82.0 percent of surveyed business service firms expecting steady or increased growth in the near future.

Market conditions

Recent leasing activity has revealed an increase in tenant demand for unique and creative office space in and around the Minneapolis CBD. This is best exemplified by lease deals struck at the renovated 510 Marquette and Loose-Wiles buildings, two Class B properties, each of which have gone from very low occupancy to now being more than 90.0 percent leased. The properties have been successful in attracting a diverse mix of creative users including advertising & marketing agencies, IT companies and design & engineering firms. A fresh new inventory of creative multitenant office space is coming online in the Minneapolis CBD at RBC Plaza (now available), Mayo Clinic Square and Gaviidae Common.

Small, but growing, software companies, such as OptiMine Software and Workface Inc., have expanded their footprint and relocated to the Minneapolis CBD. Most notably in the North Loop neighborhood, home to a deepening pool of young talent as well as an abundance of amenities and creative office space. The office vacancy rate within the Warehouse District and North Loop neighborhood has now fallen to below 12.0 percent.

Outlook

Investor demand for office product throughout the Twin Cities continues to show strength, however the supply of available properties on the market has tightened. The pending sale of the Class A 50 South 10th Street in the Minneapolis CBD is a prime illustration of the strong demand for Twin Cities office properties by out-of town investors. While the sale is still pending, Franklin Street Properties Corp. is working on a deal to sell the Target Corp. anchored property to a fund run by the German company Union Investment Real Estate for $164.5 million. The price works out to well above $300 per square foot and would likely be a record sale price for the Twin Cities on a per square foot basis.

- Abel Balwierz
Senior Research Analyst, Minneapolis

New Jersey

Economy

A lack of sustained employment growth kept the Northern and Central New Jersey office market on a neutral footing during the first half of 2014. After adding 8,200 private and public sector jobs during April, the state lost 1,500 jobs in May. The New Jersey unemployment rate was 6.8 percent in May compared to 8.6 percent one year ago. Despite this decline, the state remains above the national rate of 6.3 percent. Furthermore, the lower unemployment rate may be attributed to the state's shrinking workforce, rather than accelerating job gains. According to a recent Rutgers University economic forecast, the state is expected to gain 24,400 new jobs in 2014 compared to less than 20,000 jobs last year. The sluggish recovery is expected to hinder the state from returning to its January 2008 peak of nearly 4.1 million jobs until early 2018.

Market conditions

Limited demand matched by additional vacancies released to the market by mergers, restructurings and relocations, kept the Northern and Central New Jersey overall office vacancy rate in check during the second quarter. After reaching 25.0 percent during the first quarter, the overall vacancy rate was unchanged at this level through mid-year 2014. The vacancy rate remained above the 24.2 percent registered one year ago. Nearly 186,430 square feet of negative net absorption took place in the office market during the second quarter. Surging leasing velocity led to nearly 600,000 square feet being absorbed in the Route 24 submarket. However, this demand was countered by additional availabilities in the Bergen North, Route 78 and Route 80/23 submarkets, which each recorded negative absorption figures greater than 200,000 square feet.

Outlook

The life sciences sector is anticipated to remain among the most active segments in the Northern and Central New Jersey office market as companies expand their operations or shuffle their real estate holdings in the wake of mergers and acquisitions. Such deals are reshaping the state's life sciences industry as companies look to diversify their business lines, increase revenue and gain market share. Life sciences companies accounted for more than one-quarter of the leases signed in the office market during the second quarter. Among the largest transactions involved Sandoz moving from 506 Carnegie Center and into a 154,100-square-foot building at 100 College Road West in Princeton. In addition, Merck & Company leased a 150,000-square-foot building at 2 Giralda Farms in Madison. After acquiring Genentech and relocating its U.S. headquarters to San Francisco in 2009, Roche vacated its Nutley research campus and was marketing five buildings totaling nearly 2.0 million square feet. In Bridgewater, 64,550 square feet was available for sublease at 100 Somerset Corporate Boulevard by Forest Laboratories, which is being acquired by generic drug maker Actavis for approximately $25.0 billion.

- Steve Jenco
Vice President, Research,
New Jersey

New York

Economy

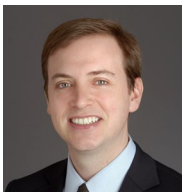
New York City private sector employment—currently expanding at a vigorous 2.3 percent per year—has reached record levels largely without the benefit of its traditional leaders of financial and legal services. High-tech and professional services, in particular, have fueled much of the growth in office-using employment, with high tech growing at an outsized annual rate of 5.8 percent. The outlook for the financial services sector is slowly starting to improve as it has posted small, but noticeable, gains since the beginning of 2014. Year-over-year financial services employment has grown 0.5 percent. Despite increased regulation, this growth trend is forecast to continue as the reluctance for banks to expand has waned in light of improved economic indicators and strong profits in investment banking, including M&A activity.

Market conditions

The Manhattan vacancy rate fell sharply to its lowest level in two years as the result of several major leases—including those in the previouslylagging financial and legal services sectors. The overall Manhattan vacancy rate decreased to 10.6 percent from 11.1 percent in March. Year-to-date, there have been 26 recorded leases 100,000 square feet or larger compared with 19 leases at this point in 2013. Unlike the past two years, much of the large block activity has been driven by new leases as opposed to renewals—a sign of improving confidence by both tenants and landlords. Tenants appear more willing to spend capital to relocate, even if that decision is a net consolidation to improve efficiencies, while landlords are less reluctant to lose tenants in what many view as a rising market. Time Inc. committed to 669,832 square feet at 225 Liberty Street (Brookfield Place), which represents the largest relocation from Midtown since the Condé Nast announcement in 2011. BNY Mellon also announced that it will move to 225 Liberty Street in a lease for 350,000 square feet. As a result, the Downtown Class A vacancy dropped to 13.0 percent in the second quarter from 15.1 percent in the first quarter. In Midtown, financial services led activity, helping to drive the Class A vacancy rate to 11.5 percent from 12.1 percent in the first quarter. The Midtown South Class A vacancy rate fell to 5.8 percent, even while its asking rent rose to a record high of $77.08 per square foot.

Outlook

More large leases are expected to close by summer's end, which could send Manhattan vacancy rates even lower. While pricing in the Midtown and Midtown South Trophy market has eclipsed or returned to peak levels, the larger Manhattan market remained 11.4 percent below pre-recession highs. A near-term spike in rents, which is historically common in the Manhattan real estate cycle, seems unlikely without a return to growth in the financial services industry. However, with most major new office construction several years away and overall vacancy expected to trend below 10.0 percent by year-end, a growing case could be made that rents will begin to accelerate by year-end 2014 into 2015.



- Tristan Ashby
Vice President, Research,
New York City

Oakland

Economy

Alameda County's unemployment fell to 5.6 percent, 70 basis points lower than the national rate of 6.3 percent. With the addition of 12,900 new jobs year-over-year, as well as the recovery of all the jobs lost in the previous recession, the local economy continued to expand and show strong signs of improvement. In addition, Oakland's median home price jumped 23.0 percent between May 2013 and May 2014, and outpaced San Francisco in price increases.

Market conditions

Strong demand from San Francisco tenants, coupled with limited supply in the Oakland-CBD and Emeryville, contributed to a 13.0 percent increase in Class A rents; it was the largest year-over-year increase since 2007. The Clorox building has the only vacant available space in the City Center district and touring activity has substantially increased since last quarter. With the signage of a major lease later in 2014, the City Center district may see a single-digit vacancy rate, the lowest since 2008. The City Center district remains attractive to San Francisco tenants due to proximity to BART, an urban environment with vast amenities and affordable rental rates.

Despite a strong first quarter in leasing activity, Emeryville remained relatively quiet this quarter with no new leases from out of market tenants, but rather building relocations from tenants within Emeryville. With three large blocks of space available, Emeryville may see spillover from tenants touring the Oakland-CBD market later in 2014.

Outlook

Market momentum is expected to increase throughout the rest of 2014. As tenants continue to lease space, especially those expanding or relocating from San Francisco, market fundamentals are tightening. In addition, the strong single-family housing sector will continue to further drive economic growth in the Oakland market.

- Hailey Harrington
Research Analyst,
Oakland - East Bay

Orange County

Economy

Orange County has added 26,900 jobs over the second quarter, giving the market an expected rebound after last quarter's downturn due to seasonal layoffs. The construction sector led the way, increasing its total labor force by 11.4 percent year-over-year. This was in large part due to upturn in building permit activity and construction spending stemming from an increase in home prices and the decreasing inventory of unsold homes across Orange County. Professional and business services (PBS) has added 8,700 jobs year-over-year as more technology companies look to Orange County to grow operations. Orange County continues to boast one of California's lowest unemployment rates at 5.0 percent when compared to the state average of 7.8 percent and a national average of 6.3 percent.

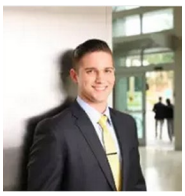
Market conditions

As the new headquarter completions of PIMCO and Hyundai hit the market, the headline of the second quarter is Orange County's massive positive net absorption. More than 1.1 million square feet of positive net absorption marked Orange County's highest single quarter of net absorption since 2005. Rental rates continue to climb as a result. Meanwhile, some landlords, bullish on current market conditions, are passing on deals they would have jumped at a year ago. Since a handful of options are still available for tenants, however, landlords are in many cases unable to push rents at the rates which they desire. The passing of Title 24 energy standards has also contributed to rent increases, as the law requires landlords to increase tenant improvement allowances an average of $6.00 per square foot, which is subsequently being passed on to the tenant.

Outlook

Although net absorption is abnormally high this quarter, a large majority came from the completions of PIMCO and Hyundai's new build-to-suit headquarters. Nonetheless, the positive net absorption has set a precedent for this trend to continue throughout 2014, albeit not at the same rate. With the positive net absorption, rental rates are also expected to climb as the Irvine Company continues to push rates throughout Orange County leading other landlords to follow suit.

Several large tenant requirements are rumored to be hitting the market in coming months, while the market's small business sector continues to gain the momentum and confidence for growth. General sentiments among landlords, investors, brokers and tenants continue to remain upbeat on the market's overall fundamentals tightening ahead. Orange County remains a highly desirable place to live and work, which is helping to cultivate its highly diversified and talent-filled economy.



- Ryan Pires
Senior Research Analyst,
Orange County

Orlando

Economy

Compared to the half year mark a year ago, Orlando's labor market is growing at about the same pace. For the January through May 2014 period, total nonfarm payrolls grew by 2.4 percent or 25,400 jobs, compared to a 2.6 percent growth rate and roughly 26,600 jobs added over the same period in 2013. As of May, total payrolls grew at an annual rate of 3.4 percent or 36,000 jobs over the year. The labor market has seen an increase in activity in the leisure and hospitality sector, which is benefiting from a bitter cold winter season and an increasing number of international visitors. The sector has led the way in terms of job growth this year, making up almost half (48.4 percent) of new jobs added since January. With that, the metro's unemployment rate stands at 5.7 percent, the lowest of the major metropolitan areas in Central Florida.

Market conditions

Although economic conditions continued to improve during the first half of the year, that phenomenon has not been the case for the overall office market in Orlando. Over the quarter, roughly 213,000 square feet were returned to the market, following a return of roughly 36,000 square feet during the first quarter. This has pushed the total vacancy rate up to 18.4 percent, an 80-basis-point jump compared to the first quarter. Leasing activity did improve during the second quarter, but compared to previous years, leasing volumes are down as the first half of 2014 closes out.

Outlook

As we look ahead to the second half of 2014, our outlook on Orlando's office market remains optimistic. This is due to the fact that office market gains tend to lag broader economic gains in the local and national economy, so we expect to see a pickup in activity during the second half of the year. However, as office users continue to shrink their space needs, we are likely to see further consolidations going forward, which will continue to limit office market growth in the near term.

- Austin Carter
Research Analyst,
Central Florida

Philadelphia

Economy

Employment in the Philadelphia Metro Statistical Area (MSA) finished the second quarter up 1.2 percent over the end of 2013. Total unemployment declined from 6.4 percent at the end of 2013 to 5.6 percent, and is now lower than the national average of 6.3 percent. In a positive sign for the Philadelphia economy, the MSA's two strongest employment sectors "eds and meds" and professional / business services have added 15,200 jobs thus far in 2014.

Market conditions

The Philadelphia CBD demonstrated signs of expansion in the first quarter of 2014 with a pocketed expansion in the University City submarket and diversified Trophy class product. The second quarter continued to experience signs of growth with notable demand from law firms, financial services firms, consulting companies and nonprofits in the Market Street West submarket, and demand from "eds and meds," characteristic of the University City submarket. While rent growth has slowed in University City – posting a 2.6 percent decline in overall asking rents over the previous quarter, the submarket has maintained the highest average asking rent of $35.97 per square foot.

At the halfway mark in 2014, the Philadelphia Suburbs has lost nearly a quarter million square feet of occupied space as eight out of 14 submarkets experienced negative absorption in the first half of 2014. Largely due to the flight to efficiency, tenants continue the trend of leaving Class B space for modern renovation projects that offer updated amenities, new facades and energy efficiency. Despite negative gains, the market showed positive signs as overall asking rents went up slightly since last quarter and a large wave of major renovation projects and a built-to-suit headquarters project were announced.

Outlook

In the Philadelphia MSA, 60.0 percent of the office buildings in the market are now 30 years or older and because of new construction costs, renovation projects will continue to serve as a new source for Class A product. This trend will continue and in the near future should expand into secondary markets with sub 10.0 percent Class A and plus 20.0 percent Class B vacancy.

In the CBD, with an improvement in economic fundamentals, positive absorption facilitating rent growth in Market Street West and Market Street East, and capital flowing into development and re-development projects, the Philadelphia CBD's office recovery is well under way. Select Trophy assets may see modest, short-term softening as the two Trophy developments near completion; however, continued net new demand will lessen the potential impact of this threat on landlord confidence.

- Geoff Wright
Senior Research Analyst, Philadelphia

Phoenix

Economy

Phoenix's unemployment rate fell to 5.3 percent in the second quarter, the lowest level since the recession. Steady growth has helped the Valley recover about 200,000 of the 300,000 jobs lost during the recession. Financial activities, one of the sectors that has already surpassed its previous employment peak, continues to drive most of Phoenix's growth along with education and health services and professional and business services.

Growth in Phoenix home prices has slowed dramatically over the last two quarters, stabilizing around $195,000. As testament to Phoenix's volatile housing market, home prices are 28.0 percent below their previous peak of $273,000 in 2006, but have grown by more 73.0 percent since they bottomed in 2011. These higher prices have helped discourage buyer interest, though. Sales remain sluggish and have yet to return to healthy levels. Good news for buyers, however, is that changes in the monthly median sales price are likely to be more modest moving forward, and we may even see a small decline if more low-end homes are placed on the market.

Market conditions

Total net absorption in the first half of 2014 is already above that of the entire year of 2013, although the second quarter was not quite as strong as the first. Total net absorption in the second quarter of 2014 amounted to 196,701 square feet resulting in just over 1.0 million square feet absorbed year-to-date. This increased demand continues to spur new construction in better-performing submarkets such as Tempe, Chandler and Scottsdale.

Large corporate occupiers are driving most of the development, as build-to-suit and preleased buildings dominate the pipeline. The first phase of Marina Heights, State Farm's new regional headquarters, is currently under construction and is expected to deliver 1.0 million square feet of new office space in the Tempe submarket this year. GoDaddy and General Motors are also expected to complete their new office buildings by the end of the year. Several spec projects are also under way scattered throughout the Southeast Valley and Scottsdale as developers respond to rising rental rates and increased demand.

Outlook

After a strong start, 2014 has already begun to outpace the previous year with strong absorption gains year-to-date and accelerated rent growth. Despite many options still available across the Valley, owners are continuing to exert upward pressure on rents. Construction and the public sector are expected to gain traction through the rest of the year following closely behind financial activities, professional services and health care, which will continue to drive Phoenix's economy forward.

- Matt Kolano
Research Analyst,
Phoenix

Pittsburgh

Economy

As of May, total nonfarm employment in Pittsburgh stood at 1,175,200 payrolls, representing an increase of 7,700 jobs or 66 basis points year-over-year. Meanwhile, the unemployment rate decreased to 5.3 percent, down 1.3 percentage points year-over-year. Office-using employment sectors were in negative territory as of May, recording an annualized net reduction of 1,700 jobs year-over-year. Professional and business services posted the largest gains among the four sectors, adding 800 to payrolls year-over-year; however, those gains were largely overshadowed by the government employment sector, which recorded an annualized reduction of 2,500 jobs.

Market conditions

Leasing activity and touring velocity were in high gear during the second quarter, with the largest lease going to the University of Pittsburgh Medical Center (UPMC). The health system announced that it had reached an agreement with the H.J. Heinz Company to sublease about 140,000 square feet at the Heinz 57 Center, a converted department store property turned into an office building that most recently served as Heinz's North American headquarters. UPMC's current lease at the Chatham Center downtown will expire at the end of the summer, which is when it will move 450 employees to the Heinz 57 Center. The move will fill a little more than half of the space Heinz left in the building last August. Since then, Heinz has been seeking to sublease the 277,000 square feet it has under lease until 2026. UPMC's lease is for 12 years, reaching the end of Heinz's term in the building.

Construction activity also remains heightened throughout the region with approximately 1.8 million square feet under construction. The largest project currently under way is the 33-story, 800,000-square-foot Tower at PNC Plaza. Construction on the $240.0 million project is scheduled to be completed in 2015. PNC Bank, which will own the tower, will occupy the building in its entirety. Also under construction downtown is The Gardens at Market Square. The Gardens, a mixed-use development located in the heart of downtown, will consist of 128,000 square feet of Class A office space, a 198-room Hilton Garden Inn, a 330-car parking garage and 14,000 square feet of retail and restaurant space. The $104.0 million development is expected to be completed in the fall 2015.

Outlook

Touring activity and leasing volumes are expected to hold steady into the summer as a number of tenants are active in the market. For those tenants evaluating space options, large blocks remain limited both downtown and in the suburbs. While this will weigh on large users, smaller tenants will have more space options. With landlords firmly in control at the negotiating table, we expect rents to continue their upward trend over the course of the year and concessions to remain at historic lows.

- Andrew Batson
Senior Research Analyst,
Great Lakes

Portland

Economy

Portland continues to achieve significant levels of job growth with year-over-year expansion hitting 2.8 percent, one of the highest levels for major western metro areas. Regional unemployment reached another five-year low at 6.3 percent, as total employment hit a new all-time high of 1,061,200. Professional & business services job growth led the office-occupying sectors, contributing 7,700 jobs year-over-year or 4.9 percent and reaching its peak employment of 158,000. Furthermore, industrial-occupying sectors were particularly strong with construction and trade, transportation & utilities adding 5,700 and 5,300 jobs, respectively, over the last 12 months.

Market conditions

Portland's office market put in a strong performance in the second quarter, bringing year-to-date net absorption to over 600,000 square feet. The market is on pace for its third year of demand near 1 million square feet and vacancy has dropped to its lowest level since 2000. High-tech firms are driving activity in the CBD with multiple firms seeking to expand and jockeying for the same spaces, while their existing space is being backfilled as soon as it is put on the market (and sometimes before). Expanding tech firms Smarsh, Simple, Survey Monkey, Cvent, AKQA and Squarespace all signed sizeable leases this quarter, taking either Class A space or creative Class B space. The Westside suburbs are also seeing strong activity with Genesis Financial, Mind Matters, Audio Precision, Welch Allyn and Vtech Communications, signing leases that totaled nearly 175,000 square feet.

The CBD office market has again tightened, with vacancy dropping to 8.4 percent, its lowest level in at least 10 years, and down 60 basis points from last quarter. The CBD Class A market has seen rental rates increase at a rapid rate, with average asking rents hitting a new high this quarter of $29.27 per square foot, up 1.4 percent quarter-over-quarter and up 8.3 percent year-over-year. There are currently no existing option for any Class A tenant needing over 75,000 square feet in the CBD. The suburban markets are tightening as well, with vacancy in 217 Corridor falling 110 basis points quarter-over-quarter to 13.9 percent,170 basis points in Kruse Way to 12.2 percent, and 110 basis points in the Sunset Corridor to 10.9 percent, which is now approaching single-digit vacancy.

Outlook

With office demand on pace to exceed our 10-year average by 35.0 percent and the construction pipeline expected to deliver limited product over the next two years, office vacancy will be in single-digits before the end of this year and likely below 8.5 percent within six quarters. Class A rents downtown have already started to escalate rapidly, but these increases have primarily been limited to the CBD. As market tightening spreads to the suburbs, expect rental rate increased to follow suit. Larger tenants will continue to struggle to find space, while small and mid-sized tenants are facing a more hospitable negotiating environment.

- Patricia Raicht
Vice President, Research, Portland

Raleigh-Durham

Economy

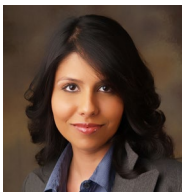
Steadily declining unemployment rates, a booming residential market and strong income growth have been the drivers of development for the Raleigh-Durham-Chapel Hill (Triangle) region. Being a global hub for technology and biosciences firms, the market has seen a consistent increase in the number of fledgling startups opening offices in the Triangle. With the Research Triangle Park's new modernization and expansion plans unveiled earlier this year, the market is now viewed as one of the new innovation and entrepreneur districts of the 21st century. Affordable labor, lower real estate costs, strong university systems and an enviable tech tenant roster provides startups a perfect launchpad to succeed in the region. Going forward, the Triangle's office market is poised to benefit as targeted investments are made in these burgeoning startup companies.

Market conditions

The Triangle's office vacancy rate was 13.8 percent this quarter, the lowest level seen since the second quarter of 2008. Growth in the local economy and businesses resulted in approximately 350,756 square feet of positive net absorption of office space. In the Class B office segment, direct vacancy rates dropped substantially this quarter by 80 basis points. However, sublet vacancy rates increased for the second consecutive quarter by 10 basis points to 0.5 percent. In an effort to optimize and make effective use of their office space, tenants continued to make lateral moves within the market from Class B to Class A assets, which caused sublease vacancies to rise.

Outlook

Strong growth in Raleigh-Durham's job market will help drive demand in the local office market. As additional speculative projects break ground this year, competition will intensify between landlords for credit-worthy tenants. Landlords of older assets in secondary submarkets will be the most affected due to the inability to compete with newer more efficient assets in primary urban submarkets.



- Mehtab Randhawa
Research Manager,
Carolinas

Richmond

Economy

Richmond's improving economy reached a significant milestone by the end of the second quarter as overall employment levels surpassed peak, pre-recession levels recorded in second quarter of 2007. For the professional office industries, major gains were led by the financial services and business-services sectors, which have added 3,700 positions over the past 12 months and increased the total payroll base by 2.5 percent in that time frame. Additionally, state legislators approved a two-year budget deal in the second quarter, which stabilized Richmond's large government employment base.

Market conditions

Vacancy rates continued to contract in the top submarkets and most notably in the Innsbrook submarket. Two major occupiers took additional looks at several significant space availabilities at the end of the quarter, which should produce signatures before by the end of the third quarter. If executed, these leases could reduce overall vacancy in Innsbrook below 10.0 percent, 2.0 percentage points higher than the lowest recorded vacancy rate prior to the 2008 recession. These tightening fundamentals contrasted with neighboring suburban submarkets in the Southwest Quadrant, particularly the Midlothian Corridor. There, tour velocity, leasing and overall sale volume remained relatively stagnant, lagging behind most Northwest Quadrant submarkets by two years on a performance basis.

In the CBD, overall tour velocity maintained a slow pace into the second quarter, producing one of the weakest quarters of leasing volume in the past 18 months. Higher rent costs and additional parking expenses were the main objections for users evaluating locations Downtown. Despite this decline, two requirements surfaced totaling 130,000 square feet. Both sought out low-end Class A space and were unrelated to law or financial industries, Downtown's most dominant tenant base.

Outlook

Although deal volume is expected to increase dramatically in the second half, a large percentage of the leasing pipeline is currently composed of renewals or relocations, which will not have a significant impact on overall fundamentals this year. Combined with the re-emergence of construction activity in the suburban and downtown submarkets, Richmond's current recovery will lag as users shift to more efficient footprints. Aside from the most dynamic submarkets (Innsbrook), tenants will maintain the upper hand in lease negotiations, more significantly in the Southwest Quadrant.

- Geoff Thomas
Research Analyst, Richmond

Sacramento

Economy

The region's protracted recovery turned a corner in the second quarter. The unemployment rate dipped below 7.0 percent for the first time since the recession began and job growth, at 2.4 percent annually in May, continued to outpace both the California and U.S. rates. Employment gains can largely be attributed to education, health care and professional services, which collectively added 11,000 jobs over the past 12 months. Health care recently surpassed professional services as the largest private employment sector in the region. Even California employment, albeit to a lesser degree, has sustained annual job growth every month since July 2013.

Market conditions

After getting off to a relatively slow start to 2014, market fundamentals picked up in the second quarter. Office industry employment gains have begun to translate into increased leasing activity and significant net absorption gains, particularly in suburban submarkets. The Point West submarket recorded over 160,000 square feet of positive net absorption due to Covered California and Summit Funding moving into their new spaces. Education and health care tenants were active in the Highway 50 Corridor and accounted for two of the largest leases signed this quarter. Due to increased leasing activity and continued growth, vacancy continues to decline after peaking at 24.4 percent in the first quarter of 2011.

The market saw movement in rental rates, with growth bifurcated between the CBD and suburban submarkets. Bumps in asking rates at 1415 L Street and newly available space at 555 Capitol Mall contributed to rent growth Downtown, while the weighted average rent in suburban submarkets were depressed by a handful of larger blocks that have been sitting vacant for some time.

- John Sheaffer
Research Analyst,
Sacramento

Large and mid-sized block availability, especially Class A space, remains tight. Education and health care users are focusing their sights on 25,000- to 50,000-square-foot Class B blocks in submarkets like the Highway 50 Corridor, where the supply still affords tenants options.

Outlook

South Placer will continue to lead suburban submarkets through the recovery, which has in large part been fueled by the resurgence of professional services and continual expansion of the health care industry. While the CBD submarket experienced a relatively soft quarter, a number of large and mid-sized state requirements should close by the end of the calendar year. As the local economy expands and business confidence continues to improve, smaller businesses will drive demand for the glut of small-sized availabilities that have kept market fundamentals in a holding pattern.

Salt Lake City

Economy

Utah's generous incentives packages provide a wide range of tax credits, from training and investment credits to tax relief. Additionally, the state's corporate tax burden is among the five lowest in the country. Tech and financial firms such as Adobe, Oracle and Goldman Sachs are some of the few that have taken advantage of this business-friendly climate. As a result of these economic benefits available, financial activities job growth is 4.9 times higher than the national average, while computer systems design employment has increased 2.4 times faster than the United States overall. Further, growth in nonoffice industries such leisure and health care, have pushed the unemployment rate just 3.8 percent, 250 basis points below the national average. All of these factors have positioned not just the economy, but also the local office market, for growth and tightening ahead.

Market conditions

Salt Lake City has kept a steady pace throughout the second quarter of 2014 in regard to absorption, vacancy and asking rates. With positive net absorption of 147,140 this quarter bringing the year-to-date total net absorption to a positive 306,579 square feet. Vacancy rates in the CBD have increased 2.0 percent over the quarter and now stand at 16.3 percent. The suburban market had a slight decrease in vacancy. Overall, vacancy rates should continue their downward trend as tenants continue to expand and grow. Across the board, asking rates have slightly decreased over the quarter, but generally holding firm on asking rates, while continuing to offer limited concessions.

Outlook

The CBD market has seen significant momentum with the completion of mass transportation and the City Creek indoor / outdoor mall. The market is expected to continue its upward trend throughout 2014 and 2015. Salt Lake City's newest 450,000-square-foot tower, 111 Tower, is officially under construction with a completion date of 2016. This speculative construction will have a positive effect on the CBD market as it will provide additional expansion opportunities for Class A users. There continues to be strong interest in large acquisitions, highlighted by KBS's purchase of the prestigious 222 South Main Street.

- Jenny Taumoepeau
Associate,
Salt Late City

San Antonio

Economy

Unemployment in April was a mere 4.8 percent in the city, compared to a rate of 5.2 percent in Texas and 6.3 percent nationally. Job growth over the last year in the metro was 2.2 percent, putting San Antonio in 19th place among large metros.

Market conditions

This quarter was marked by several significant developments in the Northwest submarket. Harland Clarke signed a 129,016-square-foot lease for the totality of WestRidge One, a speculative development. Lockhill Crossing also broke ground, which will bring 126,626 square feet to the market upon completion. Absorption is up from last quarter, totaling 141,451 square feet.

Direct absorption was much higher, at 180,190 square feet—this is due to a large, 50,000-square-foot sublease in the Northwest coming on the market. Due to the favorable absorption this quarter, vacancy in the San Antonio market closed the quarter at 17.1 percent, compared to last quarter's rate of 17.8 percent. Leasing activity this quarter was strong, coming in at 217,787 square feet. However, the majority of this activity was in suburban space, with limited activity this quarter downtown. Citywide, rental rates have declined slightly from last quarter, totaling $21.67 per square foot, but remain 5.5 percent greater on a year-over-year basis.

- Meredith Sheeder
Research Analyst,
Austin

San Diego

Economy

The San Diego economy continued to fare well in the second quarter of 2014. The May unemployment rate was 5.8 percent, down from 6.1 percent in April. The city's May unemployment rate was lower than the state's 7.1 percent and the nation's 6.3 percent during the same period.

Employment increased by 29,300 jobs or 2.2 percent over the past year. Professional and business services posted the third largest 12-month gain, adding 4,800 jobs with professional, scientific and technical services, once again representing an overwhelming large share of the job growth in this sector. The ongoing expansion of industries such as technology, life sciences / biotech, health care has provided consistent demand for office space across all classes and markets.

Market conditions

The office market exhibited some conflicting signals in the second quarter. Leasing activity increased 16 percent from last quarter with about 1.3 million square feet of deals. However, countywide leasing was down from second quarter 2013. Net absorption was also up from last quarter at 74,000 square feet. UTC experienced the largest volume of move-ins this quarter with over 400,000 square feet as LPL moved in to the 417,000 square foot build to suit, La Jolla Commons II. However, LPL vacated nearly 400,000 square feet of existing space in the adjacent Eastgate submarket. Vacancy rates experienced a slight increase this quarter to 14.0 percent on a direct basis, while overall vacancy was 15.0 percent.

The strong rent growth at the start of 2014 continued in to the second quarter. This is the sixth consecutive quarter of rent growth countywide. The average asking rent was $2.28 per square foot full service gross per month, representing a 1.4 percent increase quarter over quarter. Class A rents experienced an even larger increase, 1.8 percent, over the same period, while Class B rents increased 1.7 percent.

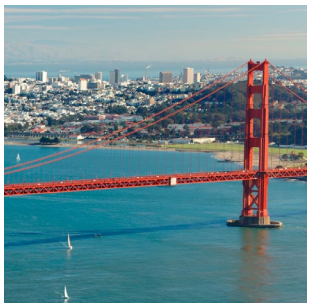
New construction has largely been limited to build-to-suit activity with the recent delivery of La Jolla Commons II and the continued construction of Sempra's new 320,000-square-foot headquarters in Downtown San Diego. However, the construction of the Irvine Company's 306,000-square-foot speculative office project, One La Jolla Center, hints at additional speculative development on the horizon.

Outlook

Office rents experienced appreciable growth in 2014 following consistent leasing activity. Class A vacancy rates are in the single-digits in certain submarkets such as UTC and Mission Valley, which have funneled remaining demand to Class B space, in turn pushing rents up in this asset class. These encouraging indicators, coupled with sustained employment growth, suggest increased leasing activity and decreasing vacancy for the remainder of 2014.

- Eileen Turnalad
Senior Research Analyst,
San Diego

San Francisco



Economy

Expansion within the high-tech sector and sustained job growth within the professional and business services industry drove the local economy, adding 8,300 jobs year-over-year at an annual rate of 1.8 percent. The unemployment rate declined 120 basis points year-over-year to a recent low of 4.2 percent, compared to 7.6 percent statewide and 6.3 percent nationally, the lowest point since early 2008. The high-tech sector now accounts for 54,109 jobs, an all-time high, up from 47,339 jobs a year ago and 30,336 jobs at the end of 2010.

Market conditions

The first half of 2014 was characterized by large leases with 10 transactions completed larger than 100,000 square feet totaling 2.5 million square feet. With several other large deals expected to close in the second half of the year, the number of 100,000-square-foot transactions is set to surpass not only the previous peak, but the dot.com boom high of nine deals totaling 2.6 million square feet. Leasing activity is up 18.0 percent in the first half of the year compared to the same time last year.

Tenants who committed to sizeable leases in the past 12 to 18 months continued to take occupancy, which resulted in 515,218 square feet of total net absorption for the quarter, pushing year-to-date total net absorption to 674,132 square feet, up over 40.0 percent compared to the first half of 2013. This heightened activity has attracted short-term investors that have capitalized on value-add opportunities. Investment sales activity this quarter has picked up with $1.8 billion in sales and another $1.5 billion either on the market or under contract to sell.

Outlook

With several large occupancies still expected this year including Uber, Twitter, University of the Pacific and Salesforce, annual net absorption for 2014 is expected to exceed 2.0 million square feet, surpassing the 2011 all-time high of 1.8 million square feet. Future advances in positive absorption will place upward pressure on rental rates in the near term amid reduced availabilities and tightening citywide vacancy.

- Julia Georgules
Vice President, Research,
San Francisco

San Francisco Peninsula

Economy

Growth in the technology and life science sectors has played a major part of the Mid-Peninsula's economic recovery. The region's unemployment rate fell to 4.1 percent in May, down from 5.3 percent a year ago and is very close to 2007 levels. While tech companies are aggressively vying for talented programmers, the ramp up in life science venture capital funding and a healthy IPO pipeline is creating increased demand for biomedical engineers and microbiologists. With job creation on a positive trend, construction of residential housing has risen significantly to accommodate a rapidly growing workforce. With more companies hiring and expanding within the Mid-Peninsula, various city officials hope that the inflow of new talent will help rejuvenate the county and potentially lead to more redevelopment.

Market conditions

The demand for office space in the Mid-Peninsula has been consistent over the past 24 months despite being overshadowed by the robust volume of demand from its neighbors Silicon Valley and San Francisco. There were several major deals signed during the second quarter, most notably Walmart.com's 106,009-square-foot transaction in San Bruno. While large leases have been sporadic, transaction activity for space less than 35,000 square feet has been more predominant. Conditions in the South County are more competitive for tenants, due to significant overspill activity as a result of high rents in Palo Alto and Mountain View. Space along the 92 Corridor is still high in demand, but with San Francisco's tech hubs and Silicon Valley's talent pool luring younger companies, the region is not seeing very many new tenants from other markets to land.

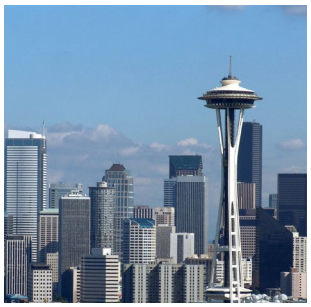
There has yet to be any new development to break ground since Kilroy / Hunter Storm began construction of their Crossing 900 campus Downtown Redwood City. All of ground up development over the past 12 months has been limited to the South County, and several proposed projects are still under review, including Sobrato's 237,000-square-foot Class A project in Menlo Park. However, most developers are waiting to see if the 900 Crossing project will sign an anchor tenant as it will substantiate evidence that demand for space greater than 80,000 square feet exists and is being stifled by the lack of existing high-image product.

Outlook

Demand for office space is expected to remain positive throughout the remainder of the year; however, the shortage of high-image large block availabilities in prime submarkets will keep larger tenant requirements at bay. This chicken and egg scenario could be one of the reasons why the Mid-Peninsula is having difficulties in attracting new tenants to the market. Until the region bolsters its development pipeline, tenants will likely wait for additional larger space options to come online, keeping deal volume within the lower end of the size spectrum.

- Christan Basconcillo
Senior Research Analyst,
San Francisco Peninsula

Seattle-Bellevue



Economy

The most recent employment forecast from the Puget Sound Economic Forecaster called for job growth of 2.5 percent in 2014, substantially higher than the 1.6 percent expected nationwide. Growth is expected to remain at an impressive rate of 2.2 percent in 2015. Current figures show that unemployment in May 2014 stood at 6.1 percent statewide and 5.0 percent in the Seattle-Bellevue-Everett area. Over the past 12 months, a total of 73,900 jobs have been added in Washington, mostly in the retail trade, leisure and hospitality, construction, education and health services, and professional and business services (this sector includes many jobs related to high-tech) industries.

Market conditions

While the first quarter saw robust sales activity, including a new per square foot market record for pricing, the second quarter slowed down considerably, as there were only two major institutional transactions. The four properties that changed hands in the second quarter represented a sales volume of $72.0 million. The second quarter was highlighted by the sale of Triton Towers. Hines and Oaktree Capital Management purchased Triton Towers from HAL Real Estate Investments for $60.0 million, or $147 per square foot. The three-building Class B campus, located in the Renton / Tukwila submarket, was 90.0 percent leased at the time of sale. With the price of core assets skyrocketing and a lack of new construction in the suburbs, investors are increasingly seeking out the best product in the best location, regardless of submarket, with a special emphasis on assets prime for rental rate increases.

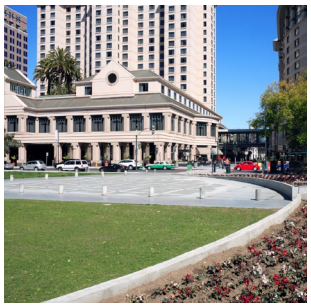
Net absorption was very positive in the second quarter, with 648,429 square feet of space taken down. The Seattle market is on track to approach 2.0 million square feet of net absorption in 2014, which is significantly higher than the 10-year average. Metro area office vacancy dropped to 11.5 percent, the lowest level the market has seen since 2007, and down 150 basis points from year-ago levels. Seattle CBD vacancy is down to 11.6 percent, 240 basis points lower than the same period last year, as the submarket continues heading for dramatic rental rate growth. However, the second quarter is particularly noteworthy, as it became apparent the recovery is becoming more broad-based, with a significant portion of market demand coming from Northend and Eastside tenants, indicating that in addition to urban tech tenants, suburban users are growing as well. Marketwide asking rents have jumped to $31.17 per square foot, up 2.9 percent year-over-year and 16.8 percent from the market trough in third quarter 2011.

Outlook

Marketwide average asking rental rates are inching up and larger increases continue to be observed in well-leased buildings and the tightest submarkets. While the Bellevue CBD and Seattle CBD continue experiencing strong rental rate growth as tenants compete for those few remaining large blocks of space, the bigger story recently is the resurgence of a few tertiary submarkets that have struggled with elevated vacancy since the recession. Several of the largest leases signed in the second quarter occurred in buildings located in the I-90 Corridor, Bothell and Belltown / Denny Regrade submarkets. As vacancy subsequently declines in these areas, expect rents to increase and market momentum to begin shifting to owners, similar to what is taking place in the downtown core submarkets.

- Patricia Raicht
Vice President, Research, Portland

Silicon Valley



Economy

Santa Clara County saw yet another decline in unemployment, dipping from 5.4 percent in April to 5.3 percent in May, while 3,300 jobs were added during the same time frame, marking the seventh straight month of job growth. The "acqui-hire" trend is more predominant as tech companies have been buying talent and ideas through M&A activity to stay ahead of the innovation curve. Investment activity from the venture capital community has also gained steam. Over the past 24 months, a steady stream of seed funding has flowed to startups, reflecting strong confidence that the current economic cycle still has room to run.

Market conditions

The Valley continues to see a significant volume of tenant demand as one of the largest deals of the year signed during the second quarter. Ericsson's lease of two under-construction Class A buildings in Santa Clara signaled to the market that there are still large tenants looking to expand into high-image space. While the deal is feeding the frenzy of optimism for landlords, this move will eventually put 300,000 square feet of second-generation space back on the market in North San Jose by 2015. While the submarket already has a substantial amount of available options, it opens up opportunities for tenants large space requirements. Investors who gambled on rehabilitating older product in secondary markets are starting to reap some reward. Nearly 250,000 square feet of leases for renovated space along Orchard Parkway in North San Jose closed during the second quarter, including Verizon's 136,000-square-foot lease at Bixby's development on Trimble Road. More tenants are beginning to consider San Jose as a viable option, including the Downtown CBD, which is starting to emerge from its sleepy state and has already seen approximately 220,000 square feet of positive occupancy gains year-to-date.

Additional new development is currently under way, especially in high-demand submarkets that have very little Class A supply. Although the political environment in Palo Alto and Mountain View is creating a barrier of entry for large-scale campus projects, there are a significant number of smaller office / retail developments under way in their respective downtown areas, much of which has already been leased. Investors are still showing strong interest in properties throughout the Valley. With interest rates still low, more institutional buyers are entering the market looking for core leased assets or properties with repositioning potential.

Outlook

The overspill of tenant activity is expected to reach the North San Jose and Downtown CBD submarkets where rents for quality space are still seen as a value for tenants. The recent string of successful tech IPOs, as well as the future IPO pipeline, suggests that Silicon Valley is in a good position for another year of solid occupancy and economic gains. With several tenants still in the market looking space and new construction leasing faster than it can be built, the Valley's current real estate cycle has still yet to peak.

- Christan Basconcillo
Senior Research Analyst,
San Francisco Peninsula

St. Louis

Economy

The unemployment rate in St. Louis improved 50 basis points to 6.5 percent from the previous year. Nonfarm payrolls added 10,800 workers year-over-year in the most recent data from the Bureau of Labor Statistics, extending annual gains to 20 consecutive months. Fueled by growth in financial activities and professional business and services (PBS), office-occupying sectors achieved a new high of 488,700 workers, eclipsing the previous record from May 2008. Employment in financial actives is accelerating, increasing more than 3.0 percent from the previous year for five consecutive months. PBS has been the leading supersector in annual employment gains for 16 months running and is now at an all-time high, but there have been some headwinds. Large occupiers, including Bank of America and ConAgra, announced plans to trim employment levels. While the changes have not had an immediate impact on occupancy, Bank of America could further consolidate its operations, downtown and Ralcorp could attempt to sublease excess space.

Market conditions

After a strong start in the first quarter, the second quarter was flat with vacancy only decreasing 10 basis points to 16.1 percent. Tenants continue to move-up with 86.1 percent of quarterly absorption coming in Class A buildings. The trend was even stronger in the suburbs where Class A buildings added 82,537 square feet of occupied space versus a decline of 32,385 square feet for Class B buildings. While leasing activity was up sharply, the three largest transactions were renewals, with two of the transactions, Reuters and Arch Coal, downsizing. Centene's lease will add 71,000 square feet of occupied space when it commences next quarter at 400 S. Woods Mill; the move adds to the company's offices in Clayton. After having the largest occupancy gain last quarter, Northwest County lost the most occupied space of all the submarkets. The loss was due in large part to Express Scripts vacating approximately 60,000 square feet at Riverport Tower. Express Scripts moved the employees to its fifth building that was just delivered on its corporate campus.

Outlook

A potential spec building was recently announced along the I-64 corridor in West County. The new building would be the third building of the Delmar Gardens development. It is still unknown if the project will break ground before securing a tenant. Market activity is picking up. With 15 tenants in the market for more than 50,000 square feet and several large spaces coming to market in the next 12 months, tenants will have more options than in the past 24 months.

- Blaise Tomazic
Senior Research Analyst,
St. Louis

Tampa

Economy

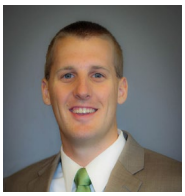
Unemployment rates are declining per the norm for this time of year throughout Tampa Bay, but they are not keeping pace with the rest of the major markets in Florida. At 5.9 percent, the Bay area's unemployment rate is higher than the Florida average and is just slightly below the U.S. average. For a comparison, Jacksonville currently sits at 5.6 percent and Orlando at 5.4 percent. Although it is lagging, progress is definitely being made. Office-using employment is up 3.6 percent as the information, financial, and professional and business service industries have added 11,800 jobs over the past 12 months, but the good news does not stop there. Payroll growth was a full percentage point faster in Tampa Bay than the national average in 2013.

Market conditions

Although overall market absorption for the second quarter would typically raise eyebrows, as the total came to nearly -200,000 feet, it was largely due to two tenants. First, Merck Medco (aka Express Scripts) vacated a property in the I-75/I-4 Corridor for 133,000 square feet that they have occupied for over the past 10 years. The firm relocated some of its employees from that location to Netpark in Westshore, others are now telecommuting, and the last portion have been let go from the company. Second, T-Mobile vacated over 90,000 square feet at Lakeside in Westshore. A large portion of that space was a data center that has been decommissioned, while the personnel piece has been relocated to a flex location. When looking at absorption totals from first quarter 2013 to first quarter 2014 compared to second quarter 2013 to second quarter 2014, the latter four-quarter span remains higher signaling that demand is continuing to grow. With multiple submarkets having vacancy rates below their five-year and 10-year averages, rents achieving rates higher than ever before, and capital improvements occurring, the feeling in the marketplace is very optimistic. The suburban market in its entirety has a vacancy rate of 20.0 percent, which is 120 basis points below its five-year average. Luckily, the statistics are not the only sign of positive activity. One of the larger landlords in the market, Highwoods, has recently invested over $7 million in capital improvements among its 3.5 million square feet of property.

Outlook

All signs point to a positive outlook for the foreseeable future, particularly for landlords. Investors continue to visit the marketplace searching for assets to purchase as Tampa proves time and time again to be an advantageous business climate; companies seem to believe the same. Evercore, a wealth management firm, just announced it would be expanding into the Southeast and is opening its first office in Tampa. We expect rates to continue to climb as the quantity of quality space becomes scarcer as a result of companies expanding due to improving economic conditions.



- Ryan Vaught
Research Analyst,
Central Florida

Washington, DC

Economy

At the end of the second quarter, the unemployment rate in Metro DC plunged to 4.5 percent, the lowest level in over five years, as signs of a broad economic recovery began to take hold across the country. Total employment in Metro DC reached an all-time high of 3.1 million jobs, and growth within the health care, education and technology sectors helped drive hiring momentum.

Although payrolls within the federal government – the region's largest employer – continued to decline, the federal budget deficit narrowed to its lowest point since 2008. With tax receipts rising by 7.5 percent year-over-year and outlays declining a 2.3 percent, the federal budget outlook appeared to be headed back toward a sustainable path – a key development given government contractors' reliance upon procurement programs and agencies' need to replenish funds and backfill recently vacated positions.

Market conditions

Office demand stabilized during the second quarter of 2014. Most leasing decisions were driven by building quality and location, as employers increasingly looked to improve utilization ratios and accommodate evolving workforce preferences for buildings in walkable, urban environments. As a result, leasing velocity within the Trophy segment and most centrally located submarkets inside the Beltway continued to see robust leasing activity, while second-generation suburban assets experienced more limited tenant demand.

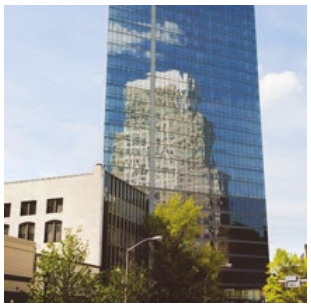
Competition for new, efficient buildings remained strong as speculative construction activity tapered off and space options increasingly skewed toward older and less desirable buildings. Demand from the traditional segments of the market – namely law firms and contractors – remained relatively flat, while the GSA continued to seek opportunities to reduce agency footprints. Several tenants in nontraditional industries, such as consumer tech and health care, helped offset the choppiness in more traditional sectors.

Outlook

Although near-term tenant demand remains somewhat limited, the pullback in new construction will have a meaningful impact on the Metro DC office market over the next 24 months. Vacancy across the region is becoming concentrated in Commodity Class A and Class B assets – buildings that are not appealing to today's efficiency-minded tenants. The result of this trend is that large tenants with pending lease expirations must start their search process early to preserve the option of anchoring a new development or risk being confined to less-desirable second-generation space. That confining supply-demand dynamic is likely to signal a peak in concession packages and a gradual shift in negotiating leverage from tenants' favor to more balanced conditions by 2015.

- Scott Homa
Senior Vice President, Research,
Washington, DC

Westchester County



Economy

Second quarter economic indicators painted a better picture for the local Westchester County economy after a disappointing first quarter of the year. Consistent modest gains in nonfarm payroll growth finally permeated the office-using sector, which had barely added jobs in the first three months of the year. In the second quarter, office-using jobs accounted for more than a third of nonfarm employment growth, adding 600 jobs to the economy. The job gains were spread across financial services, professional and business services and information services. The county also continues to promote the role of the life sciences and biotech industry in the expansion of the local economy. Continued investment appears to be yielding positive growth. High-tech payrolls grew by 3.6 percent in the 12 months through the mid-year 2014 mark, with 200 jobs added in the second quarter.

Market conditions

Although hiring across both the high-tech and office-using sectors are positive indicators for the local office market, much more momentum is required to initiate a noticeable shift in office market indicators. Activity in the market is subdued. Leasing volume is minimal, with approximately 375,000 square feet in deals signed in the second quarter. While this is up slightly from 350,000 square feet transacted in the first quarter, volume is off by nearly a third compared with average quarterly volume over the last three years. Of the major deals 10,000 square feet or greater signed in the second quarter, more than half were renewals. Renewal activity typically shows a retraction in a more confident business environment. For businesses in Westchester, while many are concerned about the cost of operating in Westchester, workforce retention is also a significant consideration. Many Westchester-based businesses located in Westchester because much of their talent resides in the area. New demand for space, however, is limited. Lack of new absorption to the market has resulted in the vacancy rate remaining relatively unchanged during the past year, but up from 2012 levels. Year-to-date net absorption is negative by more than 100,000 square feet. Weak demand-side conditions are also putting downward pressure on asking rents. Overall rents for the county declined 2.9 percent in the second quarter.

Outlook

A strong outlook for the Westchester County office market relies on several factors, including the continued investment into areas like life science that can ultimately absorb excess office space. Also critical is a more aggressive approach to incentives programs that can help attract new businesses to the area and help retain major existing operations. The market otherwise has significant talent and educational amenities to support a strong business environment, but without growing enterprises to harness such assets, the office market will continue to erode.

- Erin Patterson
Research Manager,
Fairfield County

West Palm Beach

Economy

The Palm Beach County unemployment rate, as of May, recorded a slight month-over-month increase of 30 basis points to 5.9 percent, which is 40 basis points below the state and still much lower than the 7.3 percent this time last year. The decline in jobs comes as a bit of a surprise, as nearly every sector shed jobs in the month of May. Goods-producing sectors (construction and manufacturing) were the only sectors to post significant job gains in May compared to April due to a recent uptick in development occurring throughout the county. Goods-producing employment increased by 2.1 percent, or a total of 900 new positions, in May.

In terms of office-using sectors, only the financial sector posted job gains, seeing employment increase by 0.8 percent. Professional and business services, which had been leading the way in terms of office-using employment increases, shed 1,100 positions, or 1.1 percent of the sector's employment base.

Market conditions

Although still elevated, the Palm Beach County office vacancy rate fell to 21.2 percent this quarter, a 150-basis-point decline since year-end 2013 and the lowest level since the beginning of 2008, before the effects of the recession took hold. This marked the fifth straight quarter of declining vacancy; albeit, vacancy has only declined 220 basis points in that time.

Countywide, rents have also experienced a similar positive trend and increased to $28.36 per square foot (full service) – their highest level in four years and a 1.8 percent increase year-over-year. Though not monumental, the upward push on asking rents is a sign the market is strengthening and the economic atmosphere is improving.

So far this year, the market has absorbed over 308,000 square feet, or 1.5 percent of the county's total inventory. If the current pace holds, Palm Beach County will have its strongest year in history in terms of positive absorption. After the strong leasing activity in the first quarter, where many companies executed expansions with plans to occupy space in the third quarter, we expect the positive absorption to continue; however, given the composition of leases and the slowdown in activity, the current pace is not expected to hold for the remainder of the year.

Similar to Broward County to the south, strong absorption gains have been associated with tenants talking occupancy of space in recently purchased assets. For example, SBA Communications took occupancy of 160,000 square feet in Beacon Square (Boca Raton North submarket), which the company purchased last year. The move resulted in approximately 85,000 square feet of positive absorption, but is not indicative of the leasing market so far this year.

Outlook

The slow market tightening should continue for Palm Beach County as tenants execute expansion plans, which will result in true absorption gains. The economy in Palm Beach County is much improved from one year ago and it is only a matter of time before more companies start expanding and absorbing space in West Palm Beach.

- Marc Miller
Senior Research Analyst,
Fort Lauderdale

Appendix

United States employment statistics

Market	Total nonfarm jobs 12-month net change (000's)	Total nonfarm jobs 12-month percent change	Office jobs* 12-month net change (000's)	Office jobs* 12-month percent change	Unemployment (May 2014)	Unemployment (May 2013)	12-month unemployment change (bps)
Atlanta	47.6	2.0%	23.4	3.5%	7.3%	8.0%	-70
Austin	29.9	3.5%	12.5	6.1%	4.1%	5.2%	-110
Baltimore	23.8	1.8%	6.8	2.2%	6.0%	6.9%	-90
Boston	30.0	1.2%	12.4	1.8%	4.7%	6.2%	-150
Charlotte	17.6	2.0%	7.6	3.2%	6.5%	8.3%	-180
Chicago	37.1	0.8%	7.7	0.7%	7.2%	9.0%	-180
Cincinnati	17.5	1.7%	2.0	0.8%	5.1%	6.8%	-170
Cleveland	5.9	0.6%	-0.2	-0.1%	6.6%	7.2%	-60
Columbus	8.5	0.9%	-2.8	-1.1%	4.4%	6.0%	-160
Dallas-Fort Worth	115.9	3.8%	33.1	4.1%	5.0%	6.2%	-120
Denver	36.3	2.8%	8.0	2.2%	5.3%	6.5%	-120
Detroit	-5.5	-0.3%	-2.2	-0.4%	8.0%	9.0%	-100
Fort Lauderdale	24.7	3.3%	6.0	3.0%	5.2%	6.1%	-90
Hampton Roads	-2.4	-0.3%	-3.8	-2.5%	5.8%	6.0%	-20
Hartford	4.1	0.7%	0.3	0.2%	7.0%	7.8%	-80
Houston	85.8	3.1%	17.4	2.9%	5.0%	6.1%	-110
Indianapolis	18.7	2.0%	9.9	4.6%	5.3%	7.0%	-170
Jacksonville	20.1	3.3%	7.1	4.3%	6.8%	7.7%	-90
Kansas City	5.7	0.6%	0.2	0.1%	6.2%	6.3%	-10
Long Island	10.5	0.8%	-0.8	-0.3%	4.9%	6.1%	-120
Los Angeles	91.3	2.2%	32.6	3.3%	8.0%	9.7%	-170
Miami	34.6	3.3%	7.5	3.2%	7.6%	8.7%	-110
Milwaukee	12.3	1.5%	-0.3	-0.2%	6.1%	7.1%	-100
Minneapolis-St. Paul	28.7	1.6%	2.3	0.5%	4.0%	4.6%	-60
New Jersey	-0.7	0.0%	-7.4	-0.8%	6.7%	8.4%	-170
New York	74.8	1.9%	19.6	1.6%	7.9%	8.8%	-90
Oakland-East Bay	16.3	1.6%	2.6	1.1%	5.6%	7.2%	-160
Orange County	26.9	1.9%	3.3	0.8%	4.9%	5.9%	-100
Orlando	47.2	4.5%	7.0	2.6%	5.7%	6.9%	-120
Philadelphia	12.8	0.5%	4.7	0.7%	6.1%	7.9%	-180
Phoenix	39.1	2.2%	10.5	2.1%	5.6%	6.6%	-100
Pittsburgh	5.6	0.5%	0.8	0.3%	5.3%	6.6%	-130
Portland, OR	28.7	2.8%	5.6	2.4%	6.1%	7.1%	-100
Raleigh-Durham	22.2	4.1%	12.0	8.1%	5.4%	6.6%	-120
Richmond	10.5	1.7%	4.4	2.9%	5.6%	5.9%	-30
Sacramento	22.9	2.7%	4.8	2.7%	6.7%	8.3%	-160
Salt Lake City	9.4	1.4%	3.3	1.9%	3.2%	4.3%	-110
San Antonio	20.2	2.2%	5.2	2.5%	4.7%	5.9%	-120
San Diego	29.0	2.2%	3.6	1.1%	5.8%	7.3%	-150
San Francisco	29.7	2.8%	11.4	3.1%	4.4%	5.6%	-120
San Jose (Silicon Valley)	38.2	4.0%	9.6	3.4%	5.3%	6.8%	-150
Seattle-Bellevue	44.7	2.5%	9.4	2.2%	5.2%	5.7%	-50
St. Louis	8.7	0.7%	9.0	2.9%	6.5%	6.9%	-40
Stamford, CT (Fairfield County)	7.7	1.9%	2.8	2.3%	6.5%	7.9%	-140
Tampa	30.9	2.6%	8.2	2.5%	6.2%	7.3%	-110
Washington, DC	3.7	0.5%	-2.9	-0.3%	5.0%	5.5%	-50
West Palm Beach	15.3	2.8%	4.2	2.9%	5.9%	7.3%	-140
White Plains, NY	2.9	0.5%	0.3	0.2%	5.1%	6.2%	-110
United States	2379.0	1.7%	651.0	2.2%	6.3%	7.5%	-120

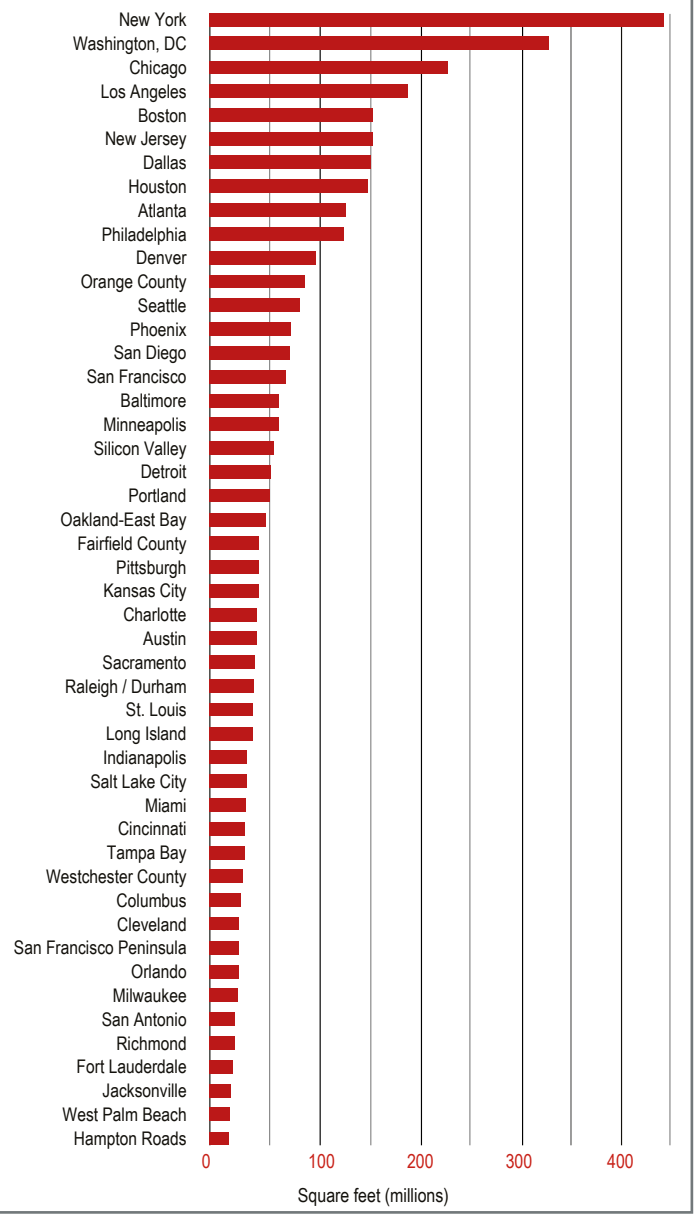
Source: Bureau of Labor Statistics, JLL
* Office jobs include the professional and business service, information and financial activities sectors.
Note: all data as of May 2014

United States office statistics

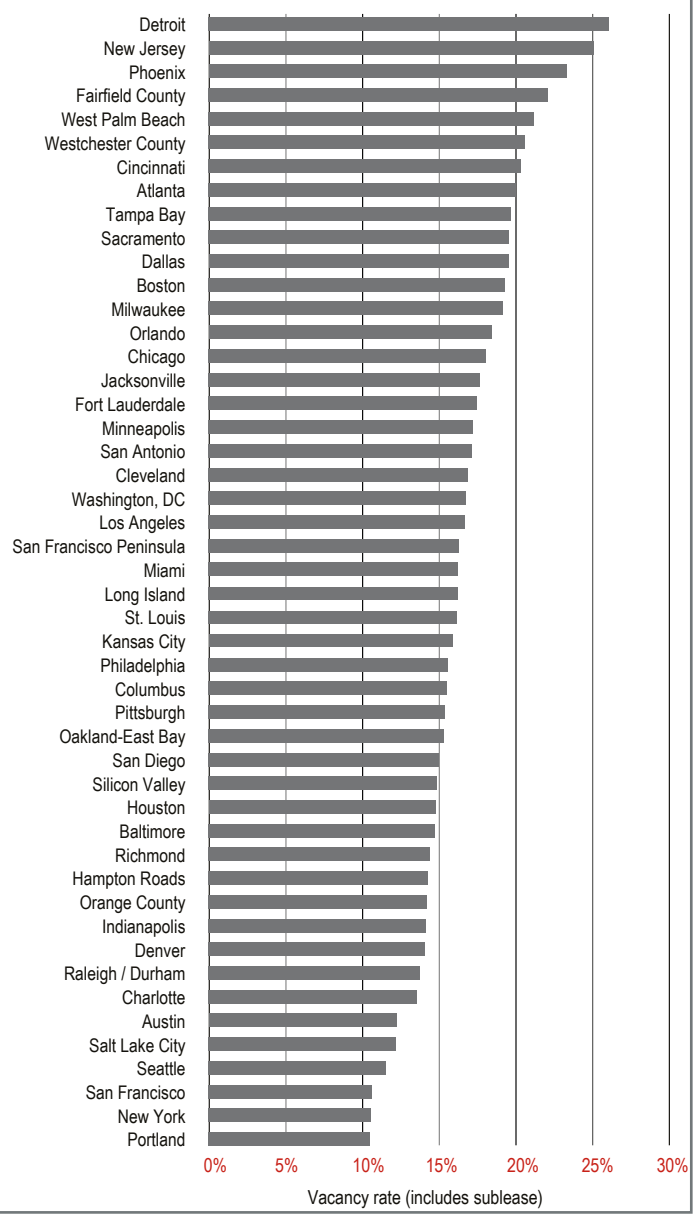
Market Totals (CBD and Suburban)	Inventory (s.f.)	YTD completions (s.f.)	Quarterly total net absorption (inc. sublease) (s.f.)	YTD total net absorption (inc. sublease) (s.f.)	YTD total net absorption (as % of inventory)	Direct vacancy (%)	Total vacancy (%)	Current quarter average marketed rent ($ p.s.f.)	Quarterly percent change	Under construction (s.f.)
Atlanta	132,992,940	0	560,194	1,677,859	1.3%	19.2%	20.0%	$20.36	0.8%	830,938
Austin	45,969,761	0	245,535	188,105	0.4%	10.8%	12.2%	$30.44	1.4%	2,561,452
Baltimore	68,314,153	538,000	10,135	840,609	1.2%	14.0%	14.7%	$22.20	-0.6%	520,904
Boston	159,886,446	0	1,131,297	1,368,859	0.9%	13.7%	19.3%	$31.83	1.0%	1,652,000
Charlotte	46,584,337	93,346	404,881	670,984	1.4%	12.9%	13.5%	$22.02	-1.0%	240,000
Chicago	232,428,435	0	767,674	935,525	0.4%	15.8%	18.0%	$28.22	0.6%	1,067,400
Cincinnati	34,888,117	136,000	202,926	307,062	0.9%	19.7%	20.3%	$18.99	-0.2%	1,439,000
Cleveland	28,861,812	0	31,108	114,507	0.4%	16.3%	16.9%	$19.42	0.1%	220,000
Columbus	31,126,361	98,000	-3,540	128,551	0.4%	14.5%	15.5%	$17.36	-1.3%	929,000
Dallas	158,011,287	956,551	336,866	722,804	0.5%	18.7%	19.5%	$22.29	1.7%	4,316,625
Denver	104,264,336	136,020	558,141	1,026,284	1.0%	13.1%	14.1%	$23.88	-0.5%	1,567,431
Detroit	60,278,575	0	84,066	502,870	0.8%	25.4%	26.0%	$18.37	-5.5%	0
Fairfield County	48,528,236	0	-108,973	257,037	0.5%	19.4%	22.1%	$32.87	-4.9%	0
Fort Lauderdale	22,597,495	0	205,960	294,048	1.3%	16.7%	17.5%	$26.64	1.9%	0
Hampton Roads	18,540,346	0	-3,224	72,563	0.4%	13.9%	14.2%	$19.10	-0.9%	221,600
Houston	154,432,637	2,224,135	965,642	2,191,359	1.4%	13.1%	14.7%	$30.49	2.7%	15,339,968
Indianapolis	36,613,268	0	62,182	118,351	0.3%	13.3%	14.1%	$17.60	-0.7%	132,993
Jacksonville	20,683,991	0	-79,837	-10,269	0.0%	17.1%	17.7%	$18.31	1.0%	0
Kansas City	48,429,606	20,000	102,152	226,215	0.5%	15.5%	15.9%	$18.35	0.9%	301,000
Long Island	42,393,234	28,800	131,527	237,289	0.6%	14.9%	16.2%	$25.81	0.7%	253,947
Los Angeles	193,522,380	197,115	578,716	1,280,102	0.7%	16.0%	16.7%	$33.38	0.5%	1,640,803
Miami	35,520,457	80,000	357,942	488,612	1.4%	15.8%	16.2%	$32.35	0.6%	128,580
Milwaukee	27,641,272	0	211,305	318,002	1.2%	17.6%	19.1%	$17.43	1.9%	403,000
Minneapolis	68,214,365	-377,961	171,222	197,042	0.3%	16.0%	17.2%	$24.32	-0.2%	0
New York	443,523,324	0	2,290,742	2,545,360	0.6%	8.8%	10.6%	$64.57	0.5%	5,444,060
New Jersey	159,708,802	0	-186,427	-286,036	-0.2%	22.3%	25.0%	$25.22	0.4%	1,654,500
Oakland-East Bay	55,260,802	0	-103,942	35,146	0.1%	14.6%	15.3%	$27.39	3.5%	0
Orange County	93,415,630	380,000	1,112,965	696,855	0.7%	13.7%	14.2%	$23.87	1.8%	463,541
Orlando	28,375,105	0	-213,462	-249,571	-0.9%	18.1%	18.4%	$19.87	0.3%	0
Philadelphia	131,554,669	332,820	649,964	478,265	0.4%	14.5%	15.6%	$25.08	0.6%	2,184,008
Phoenix	79,304,814	100,622	196,701	1,045,364	1.3%	22.5%	23.3%	$21.10	0.6%	2,329,036
Pittsburgh	48,480,209	130,000	-75,057	-168,340	-0.3%	14.1%	15.4%	$22.57	1.2%	1,517,000
Portland	59,126,088	97,050	281,217	608,516	1.0%	9.9%	10.5%	$21.87	3.6%	650,889
Raleigh / Durham	43,506,193	206,409	350,756	317,247	0.7%	13.2%	13.8%	$20.40	0.0%	1,346,891
Richmond	24,419,388	0	-59,992	-227,781	-0.9%	12.2%	14.4%	$18.42	4.6%	365,500
Sacramento	44,376,754	0	112,465	140,958	0.3%	19.1%	19.5%	$22.19	-0.4%	0
Salt Lake City	36,124,684	0	147,140	321,150	0.9%	11.2%	12.2%	$19.18	-0.8%	991,924
San Antonio	25,241,468	38,000	141,451	-56,953	-0.2%	16.0%	17.1%	$21.67	-2.4%	323,641
San Diego	78,366,694	460,492	73,829	84,031	0.1%	14.0%	15.0%	$27.36	1.8%	646,967
San Francisco	74,918,452	886,834	515,218	674,132	0.9%	9.7%	10.6%	$60.09	5.0%	3,633,110
San Francisco Peninsula	28,579,958	0	113,858	250,167	0.9%	14.3%	16.3%	$46.01	0.3%	332,425
Seattle	87,965,215	0	648,429	922,463	1.0%	11.1%	11.5%	$31.17	1.3%	1,670,992
Silicon Valley	63,030,341	1,011,404	461,803	1,346,505	2.1%	13.0%	14.8%	$40.46	3.0%	3,513,986
St. Louis	42,854,001	0	38,631	356,571	0.8%	15.4%	16.1%	$19.97	1.6%	128,250
Tampa Bay	34,603,480	0	-195,996	-68,856	-0.2%	19.0%	19.6%	$21.83	1.0%	0
Washington, DC	331,670,387	1,934,718	411,700	-569,890	-0.2%	15.8%	16.8%	$35.80	-1.1%	4,438,829
West Palm Beach	20,433,701	0	147,341	308,352	1.5%	20.8%	21.2%	$28.36	-0.6%	0
Westchester County	32,310,482	0	70,133	-116,208	-0.4%	19.1%	20.6%	$25.69	-2.8%	0
United States	3,887,874,488	9,708,355	13,853,364	22,541,817	0.6%	15.0%	16.3%	$30.00	-0.7%	65,402,190

United States office rankings

Inventory

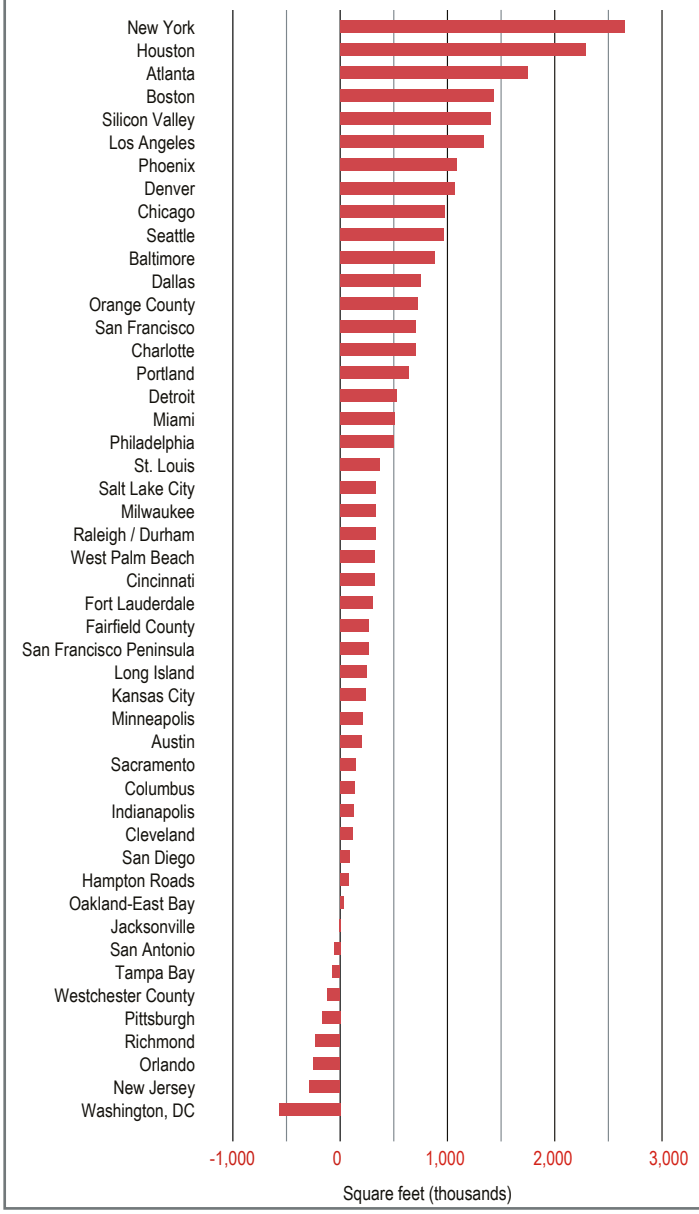


Total vacancy rates (including sublease)

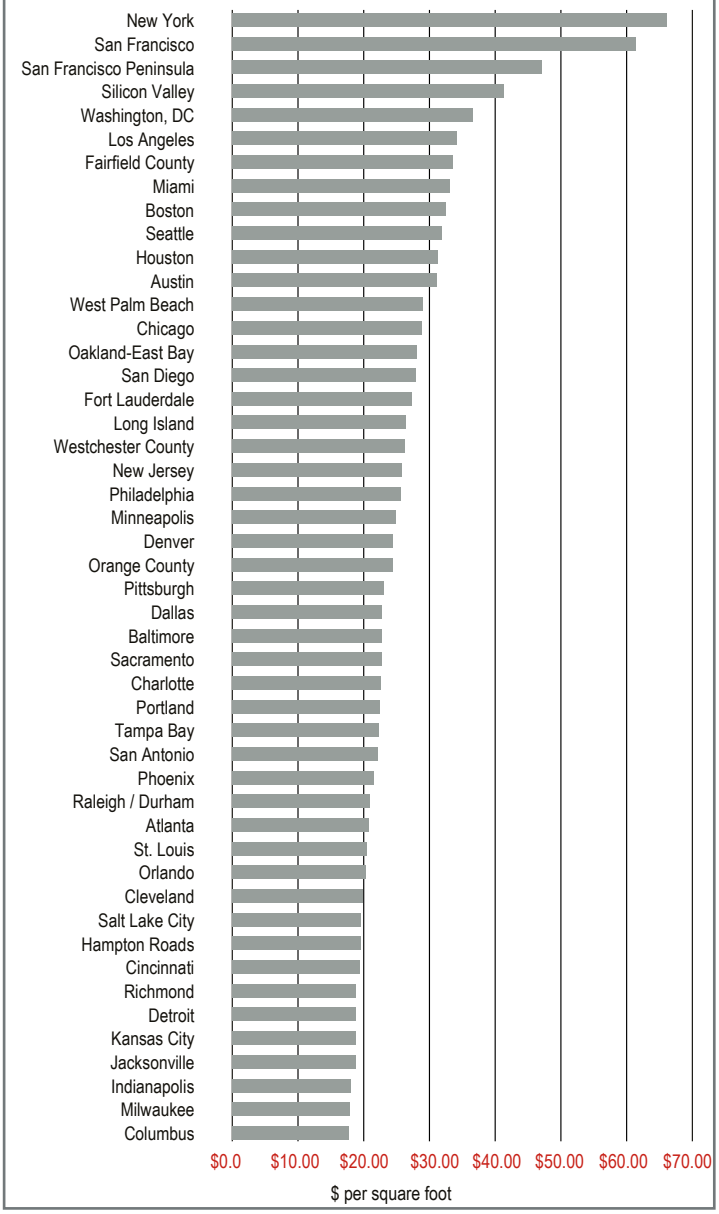


United States office rankings

YTD total net absorption (including sublease)

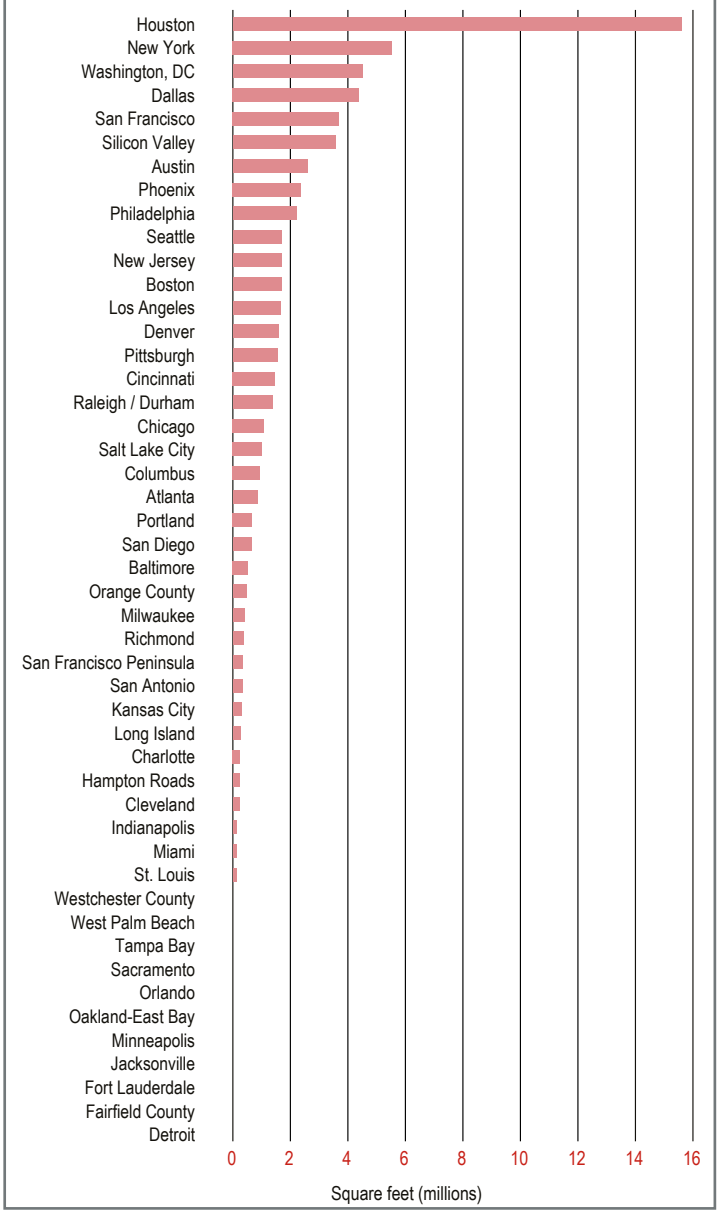


Marketed rents

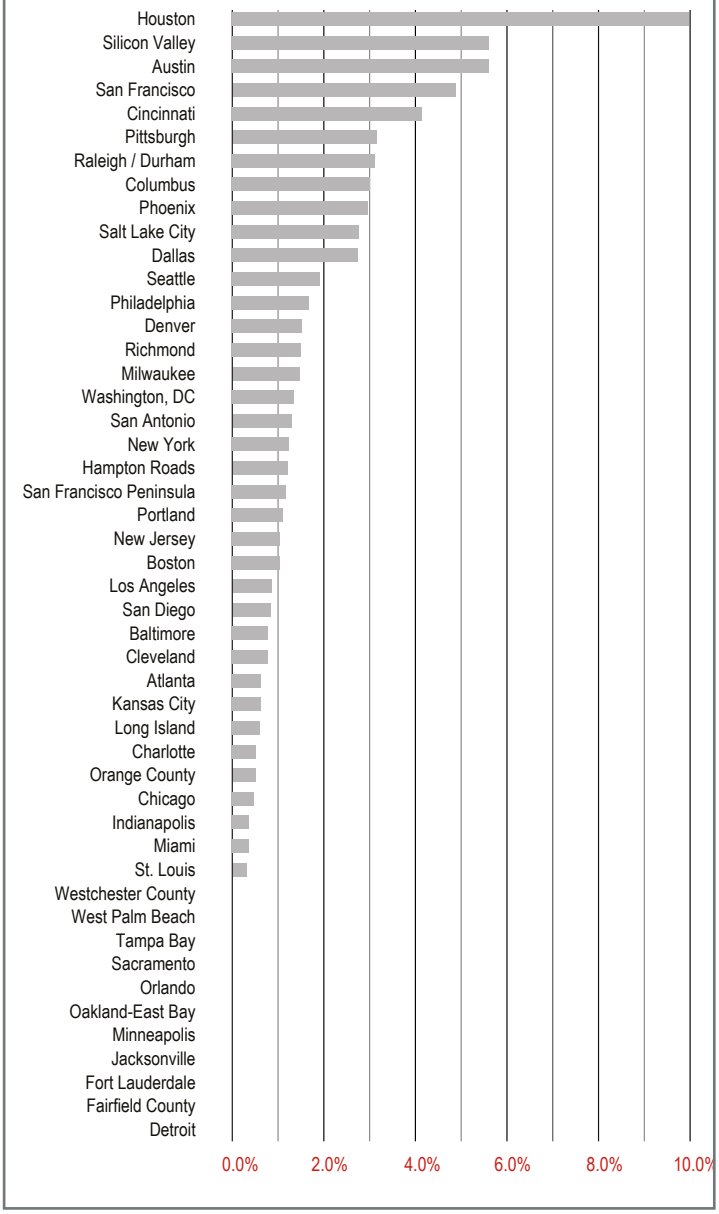


United States office rankings

Under construction



Under construction as % of inventory



Select large leases > 100,000 s.f.

Market	Tenant	Address/building	Size (s.f.)
Houston	Conoco Phillips	Energy Center III and IV	1,100,000
Dallas	Toyota	Legacy West	1,000,000
San Francisco	Salesforce	415 Mission Street	714,000
New York	Time	225 Liberty Street	669,832
New York	Sony	11 Madison Avenue	506,476
Chicago	AbbVie	26525 N Riverwoods Boulevard	490,000
New York	Blackstone	345 Park Avenue	489,495
San Francisco	LinkedIn	222 2nd Street	450,000
New York	White & Case	1221 Avenue of the Americas	440,000
Silicon Valley	Ericsson	2727 Augustine Drive	400,000
New York	Neuberger Berman	1290 Avenue of the Americas	354,891
Minneapolis	TCF	Plymouth Corporate Center	330,000
Philadelphia	Saint-Gobain	20 Moores Road	320,000
Chicago	William Blair	150 N Riverside Drive	318,000
Dallas	FedEx Office	Legacy West	265,000
Washington, DC	Washington Post	1301 K Street NW	249,898
Dallas	Tenet Healthcare	Fountain Place	242,000
Long Island	Dealertrack	3400 New Hyde Park Road	233,000
Cincinnati	Cincinnati Bell	221 E 4th Street	220,000
San Francisco	Uber	1455 Market Street	220,000
Washington, DC	U.S. National Parks Service	1201 Eye Street NW	220,000
Seattle	Boeing	Sunset North Corporate Center Park	208,835
Houston	Air Liquide	9807-9811 Katy Freeway	205,000
Charlotte	Babson Capital	300 S Tryon Street	200,000
Chicago	Seyfarth Shaw	233 S Wacker Drive	200,000
San Diego	Sony	10075 Barnes Canyon Road	190,268
Seattle	Amazon	635 Elliott Street	187,000
Milwaukee	Quarles & Brady	411 E Wisconsin Avenue	186,000
San Francisco	Splunk	270 Brannan Street	182,000
Houston	Cheniere Energy	700 Milam Steret	167,446
New York	Jennison Associates	237 Park Avenue	166,000
New Jersey	Sandoz	100 College Road W	154,100
New York	Yelp	11 Madison Avenue	152,232
Chicago	Exelon	4300 Winfield Road	150,000
New Jersey	Merck	2 Giralda Farms	150,000
Seattle	Amazon	Blanchard Plaza	150,000
Los Angeles	Universal Music Group	21301 Burbank Boulevard	146,085
Milwaukee	Johnson Controls	801 S 60th Street	143,000
Minneapolis	Star Tribune Media	Capella Tower	138,000
Silicon Valley	Verizon	Trimble Road	135,000
Kansas City	HNTB	715 Kirk Drive	130,000
Philadelphia	Unisys	2476 E Swedesford Road	122,000
Westchester County	MasterCard	100 Manhattanville Road	121,073
Tampa	Bank of America	Bank of America Plaza	120,000
Suburban Maryland	CNSI	2277 Research Boulevard	117,685
Boston	Wolters Kluwer	230 CityPoint	113,000
Los Angeles	Deloitte	Gas Company Tower	113,000
Indianapolis	Interactive Intelligence	Woodland Corporate Park	112,500
New York	NYC Department of Investigation	80 Maiden Lane	111,012
Fairfield County	United Healthcare Group	4 Research Drive	107,688
Boston	MorphoTrust USA	296 Concord Road	106,735

Select large sales > 100,000 s.f.

Sorted by total sales price and completed in Q2 2014

Market	Building	Sales price ($)	RBA (s.f.)	Price per square foot ($ p.s.f.)	Buyer	Seller
Boston	Portfolio	$2,100,000,000	1,939,058	$1,083	Oxford Properties	Blackstone
New York	450 Park Avenue	$545,842,476	3,241,462	$1,698	Oxford Properties	Somerset Partners
San Francisco	225 Bush Street	$350,000,000	593,000	$602	Kylii	SEB Immobilien
Washington, DC	TechWorld	$315,000,000	757,212	$416	Meridian Group	JBG
San Francisco	55 2nd Street	$275,000,000	380,000	$725	TIAA-CREF	Hines
Silicon Valley	1101 W Maude Avenue	$250,000,000	397,510	$629	Google	RREEF
Chicago	30 N LaSalle Street	$237,500,000	983,000	$242	AmTrust Realty	Tishman Speyer
San Francisco	221 Main Street	$228,800,000	388,000	$590	Columbia Property Trust	Beacon Capital Partners
Denver	Park Central	$213,000,000	558,346	$381	Invesco	Walton Street Capital
San Francisco	888 Brannan Street	$187,000,000	405,000	$461	Beacon Capital Partners	SKS Investments/Vantage
Houston	Energy Crossing I and II	$169,885,000	557,000	$305	Invesco	Lincoln Property Company
East Bay	California Center	$159,700,000	1,043,791	$153	Swift Realty Partners	RREEF
New York	55 Broadway	$157,083,006	358,637	$438	Harbor Group/Image Capital	Broad Street/Crow
San Francisco	33 New Montgomery Street	$148,800,000	240,000	$620	Cornerstone	Equity Office/Blackstone
Washington, DC	801 17th Street NW	$148,800,000	156,962	$948	Morgan Stanley	Property Group Partners
Silicon Valley	3975 Freedom Circle	$148,700,000	282,163	$527	Prudential	Blackstone
Los Angeles	Continental Grand Plaza	$133,000,000	486,822	$273	DivcoWest	Tishman Speyer
Silicon Valley	3985 Freedom Cricle	$126,600,000	283,221	$447	Prudential	Shorenstein
Philadelphia	Curtis Center	$125,000,000	855,786	$141	Keystone/Mack-Cali	Apollo Global Management
San Diego	701 B Street	$120,000,000	560,329	$214	Emmes Asset Management	Equity Office
Northern Virginia	1759-1760 Business Center Drive	$112,300,000	406,388	$276	Government Properties Inc. Trust	GE Asset Management
Chicago	203 N LaSalle Street	$111,500,000	581,000	$192	Sumitomo	HCI Capital
Washington, DC	1775 Eye Street NW	$104,500,000	185,284	$564	WRIT	PERS Nevada
Los Angeles	Shoreline Square	$101,700,000	396,927	$256	Parallel Capital	Guggenheim/Bantry
Chicago	200 W Monroe Street	$100,000,000	536,000	$187	Beacon Investment Properties	Farbman/Lubert-Alder
New Jersey	22 Sylvan Way	$96,600,000	249,400	$387	Griffin Capital	Mack-Cali
San Francisco	Block 40	$95,000,000	680,000	$140	Kilroy Realty	Farallon
Orange County	One Pacific Plaza	$93,600,000	398,350	$237	Prudential	Lincoln Property Company
SF Peninsula	Circle Star Campus	$90,100,000	208,000	$433	Griffin Capital	County of San Mateo
Baltimore	1300 Thames Street	$89,000,000	260,651	$341	KBS Realty Advisors	Beatty Development
Philadelphia	Terminal Commerce Building	$88,500,000	1,300,000	$69	Amerimar/Abrams/Hunter Newby	Kaufman Jacobs
Dallas	Galleria North Tower One	$86,150,586	379,518	$227	IPERS	Franklin Street Properties
New Jersey	Morris Corporate Center I and II	$82,400,000	529,360	$156	Brookwood Financial Partners	STRS Ohio
Chicago	541 N Fairbanks Street	$79,500,000	542,000	$147	Northwestern Hospital	Golub & Company/CPD
Washington, DC	Army Navy Club Building	$79,000,000	110,028	$718	WRIT	Beacon Capital Partners
Orlando	One Orlando Centre	$78,400,000	355,454	$221	Parkway Properties	Eola Capital
Los Angeles	Gateway El Segundo	$75,000,000	339,098	$221	DivcoWest	JH Snyder Company
Minneapolis	601 Tower at Carlson Center	$75,000,000	288,000	$260	Artis REIT	KBS REIT
Boston	850 Winter Street	$72,700,000	180,000	$404	GI Partners	Marcus Partners
Milwaukee	411 E Wisconsin Avenue	$72,100,000	654,000	$110	Riverview Realty Partners	Triple Net Properties
New Jersey	Portfolio	$71,600,000	795,556	$90	Keystone	Mack-Cali
Philadelphia	1 S Broad Street	$68,000,000	463,988	$147	Aion Partners	David Werner
Denver	1705 17th Street	$65,500,000	109,078	$600	GLL Properties	First Century Development
Seattle	Triton Towers	$60,000,000	407,107	$147	Hines/Oaktree	HAL Real Estate
New York	130 William Street	$59,958,500	129,500	$463	Lightstone Group	Triangle Assets
Washington, DC	1401 K Street NW	$58,000,000	124,731	$465	First Potomac Realty Trust	Guardian Realty Investors
Denver	Stanford Place II	$56,100,000	366,184	$153	Lowe Enterprises	TIAA-CREF
Minneapolis	UnitedHealth Group HQ	$53,000,000	350,000	$151	UnitedHealth Group	Founders Properties
Orange County	Brea Place	$52,700,000	557,589	$95	Hines/Oaktree	RBS Global Securities
Austin	Mira Vista and the Overlook	$51,400,000	177,624	$289	Clarion Partners	Lionstone
Phoenix	Anchor Centre West	$50,600,000	198,493	$255	KBS REIT III	Angelo, Gordon & Co

Select developments under way > 100,000 s.f.

Sorted by RBA and completed in Q2 2014

Market	Submarket	Building	RBA (s.f.)
New York	World Trade Center	One World Trade Center	3,020,630
New York	Penn Plaza/Garment	10 Hudson Yards	1,700,000
Dallas	Richardson/Plano	State Farm Campus	1,500,000
San Francisco	South Financial District	Salesforce Tower	1,400,000
Houston	CBD	609 Main Street	1,381,918
Chicago	West Loop	River Point	1,100,000
Phoenix	Tempe	State Farm Campus	1,000,000
Houston	CBD	800 Bell Street	800,000
Houston	CBD	Capitol Tower	750,000
New Jersey	Newark	Prudential Building	740,000
Seattle	South Lake Union	Amazon Phase VI	650,000
New Jersey	Hoboken	Waterfront Corporate Center III	520,000
Baltimore	CBD	Exelton Tower	477,336
New York	Penn Plaza/Garment	7 Bryant Park	473,672
Cincinnati	Norwood	U.S. Playing Card Factory	470,000
Washington, DC	East End	601 Massachusetts Avenue NW	460,449
San Francisco	South Financial District	350 Mission Street	451,000
San Francisco	South Financial District	222 2nd Street	450,000
Houston	Katy Freeway	Energy Tower IV	428,831
Raleigh-Durham	Cary	MetLife Campus	427,000
San Francisco	South Financial District	181 Fremont Street	420,000
Los Angeles	CBD	Wilshire Grand	400,000
Austin	CBD	Colorado Tower	374,348
Milwaukee	CBD	833 East	358,000
Seattle	South Lake Union	Dexter Station	345,000
Seattle	South Lake Union	400 Fairview Avenue N	345,000
Washington, DC	Southwest	400 6th Street SW	342,000
Houston	Katy Freeway	West Memorial Place	335,000
Richmond	CBD	Gateway Plaza	321,888
Columbus	Arlington/Grandview	Kingsdale Professional Center	320,000
Houston	Greenway Plaza	3737 Buffalo Speedway	320,000
Philadelphia	Malvern/Exton	Saint-Gobain Campus	320,000
San Diego	CBD	SEMPRA HQ	320,000
San Francisco	South Financial District	535 Mission Street	307,000
San Diego	La Jolla	One La Jolla Center	306,000
Houston	Katy Freeway	Enclave Place	302,000
San Francisco Peninsula	Redwood City	Crossing 900	300,425
Houston	Westchase	Westchase Park II	300,000
Seattle	Seattle CBD	Hill7	300,000
Westchester County	I-287 West Corridor	Landmark at Eastview	297,000
Denver	Greenwood Village	CoBank Center	296,000
Columbus	Arena District	Columbia Gas HQ	286,000
Washington, DC	CBD	2001 M Street NW	282,500
Cincinnati	CBD	DunnhumbyUSA HQ	280,000
New Jersey	Tinton Falls	CommVault HQ	275,000
Philadelphia	King of Prussia	CrossPoint at Valley Forge	272,000
Cincinnati	Kenwood	Kenwood Collection	270,000
Phoenix	Tempe	Hayden Ferry III	264,235

Most landlords and investors of U.S. office product are optimistic about the recovery across most markets, but more pessimistic in terms of placing all of their capital allocations ahead. Already challenges have developed for capital allocation in many coastal gateways and we are seeing the same yield compression and broader buyer pool develop in more adjusted risk-adjustment segments too recently.

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