Jones Lang LaSalle

Real value in a changing world

Office Outlook

United States . Q3 2013

Landlord confidence builds as the recovery diversifies and space options dwindle

Years of stagnant demand, coupled with increasing tenant incentives and declining rents, have flipped in recent quarters, driving activity, demand and rent levels up and concessions down across the vast majority of office markets nationally. Accordingly, for the first time in almost seven years, the majority of markets Jones Lang LaSalle tracks sit in landlord-favorable territory with the pendulum projected to move farther in that direction headed into 2014 and 2015.

In the coming weeks, the U.S. and global economies will have greater clarity on the prospects of a heightened growth environment in 2014 and 2015. Should Washington return to a functional player in the economy and push through solutions on both the government debt limit and the shutdown, projections for economic growth in 2014 and 2015 look strong. Any misstep, though, by Washington, like we have seen in both 2010 and 2011, could derail a recovery that finally has found its footing.

Construction levels remain below historical norms, but are escalating as demand levels increase and quality space options shrink. Even with the uptick in development levels though, most markets will not see new deliveries enter the market until 2015, presenting challenges for mid-sized and large tenants, especially in CBDs.

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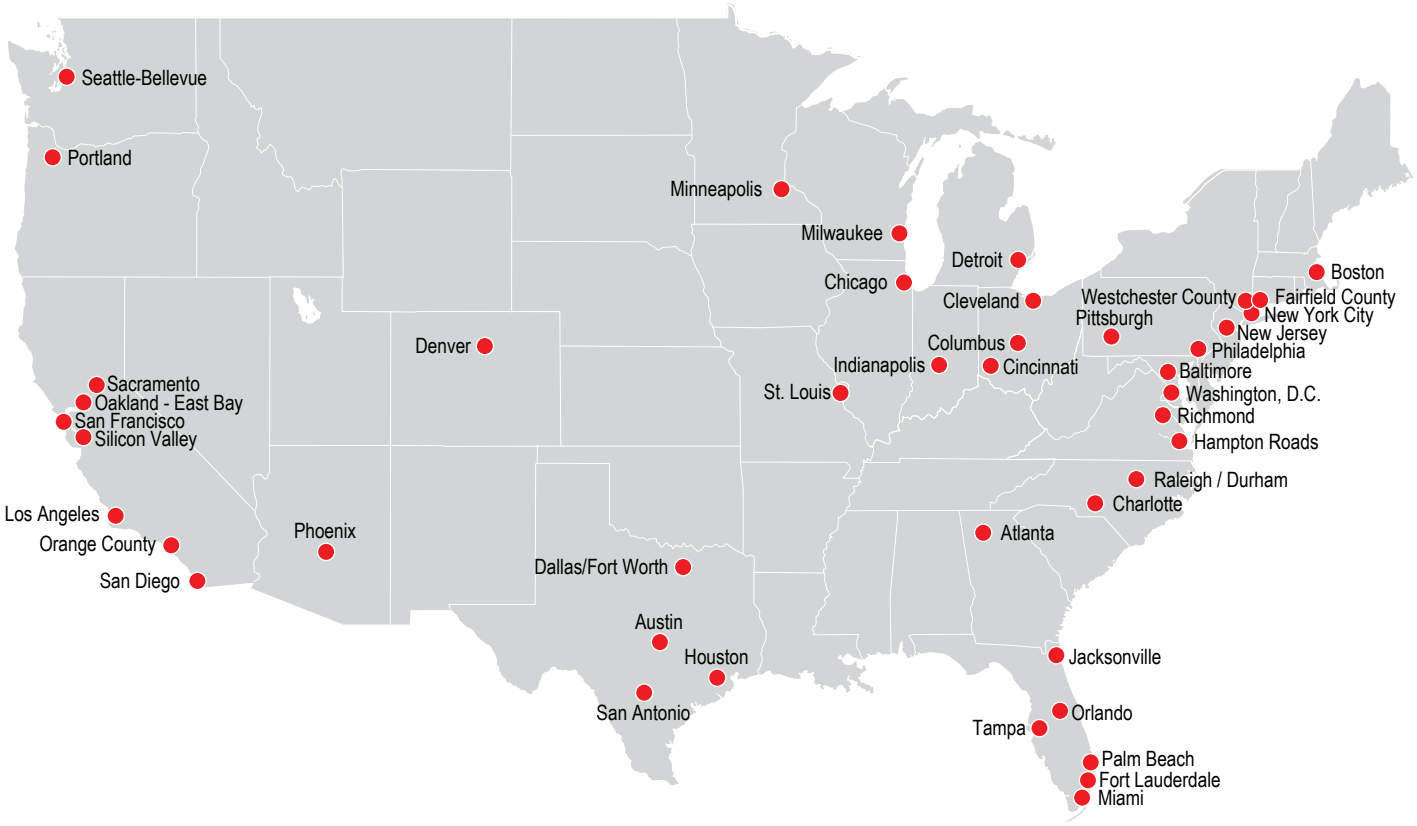
In this report

This report provides an overview of supply and demand conditions as well as detailed statistics, rankings and brief analyses of major office markets in the United States. Our research department is dedicated to producing information and insights that help our clients understand dynamic real estate market trends and guide critical decision making for investors and occupiers.



United States office market

Landlord confidence is building and, for the first time in years, the increase in optimism is not just limited to a handful of geographies. Technology-centric markets like Silicon Valley, San Francisco, Seattle-Bellevue and Austin and energy-rich markets like Houston, Denver and Dallas-Fort Worth still remain in the driver's seat of the recovery. However, in recent quarters, as the economic recovery has gained momentum nationally, most other office markets have jumped into the fray of the market comeback, experiencing tightening market conditions and enhanced prospects for 2014 and 2015.

Some of the most notable highlights from the third quarter of 2013 include:

- Positive net absorption was achieved for the 14th consecutive quarter in Q3 2013, hitting 9.6 million square feet.
- Occupancy gains through the first three quarters of 2013 reached 26.5 million square feet - just 1.7 million square feet shy of the overall four-quarter total of 2012 absorption (28.2 million square feet).
- Total vacancy dropped to 16.8 percent, the lowest vacancy level since the first quarter of 2009.
- Leasing activity levels
  - Increased 5.9 percent from Q2 2013
  - Jumped 11.4 percent compared to Q3 2012
  - Were up 4.3 percent comparing the first three quarters of 2013 to those of 2012
  - Ticked above the 25-quarter moving average for the first time since 2011.
- Coming out of the summer, touring velocity levels increased in 55.3 percent of the markets JLL tracks and the only market that displayed slower touring volume from a quarter ago was the Chicago suburbs.
- Asking rents increased for the 11th consecutive quarter in the third quarter, growing by 1.4 percent over the past three months driven by quarterly rent growth of 1.6 percent in the suburbs.
- Concession packages, including tenant improvement allowances and free rent, nationally, have dipped to 2009 levels, decreasing by nearly 20.0 percent from their peak levels.
- Construction levels topped 50 million square feet for the first time since 2008 with construction starts most prevalent in Houston and Dallas of late.

Confidence levels increasing, driving activity and expansions upward

A private sector jobs market that has recovered all of the office jobs it lost during the recession, an overall employment mix that is likely less than 12 months away from surpassing prior employment peaks and an economy projected to grow by nearly 3.0 percent in 2014 (barring Washington resolving its issues) have led to business and CEO confidence levels at their highest in several years. As a result, companies are more willing to hire additional people, reinvest profits into R&D and technology and also commit to longer term real estate decisions. This shift pushed leasing activity levels up for the third consecutive quarter from their cyclical low of 53.2 million square feet in the fourth quarter of 2012 to the third quarter level of 65.4 million square feet. The rise in leasing volume was largely attributed to not the five largest markets (New York, Washington, Chicago, Los Angeles, Boston), but the next five largest office sectors, including Atlanta, Philadelphia, Dallas, Houston and New Jersey.

- The rise in leasing volume was largely attributed to not the five largest markets (New York, Washington, Chicago, Los Angeles, Boston), but the next five largest office sectors, including Atlanta, Philadelphia, Dallas, Houston and New Jersey.
- The substantial increase in activity in these markets is important as these geographies (withstanding Houston) represent highly diversified economies with not just a driver or two leading the recovery (i.e., Houston, Northern California, Seattle-Bellevue, New York, Washington), but multiple industry drivers participating in the economic engine, a further sign that our recovery is morphing and growing and finally on solid footing.

As we head into 2014, momentum in the office sector is likely to continue and increasingly diversify even further:

- For one of the few times in the recovery, nearly 50.0 percent of all markets JLL tracks reported increased leasing activity and less than a quarter of markets stated that leasing activity levels were down quarter over quarter.
- A strong demand pipeline currently exists from Boston to Phoenix and Atlanta across to Seattle.
- The past quarter reflected the highest amount of markets expressing increased touring velocity since 2011, the timing of the first debt talks in Washington that derailed the recovery for several years.
- When examining absorption levels, some interesting patterns exist:
  - In 2010, Washington, DC and New York comprised 70.0 percent of net absorption.
  - In 2011 and 2012, tech and energy-centric markets accounted for 52.5 percent and 58.2 percent of absorption.

- In 2013, all other markets (besides the above) posted 39.5 percent of absorption, demonstrating diversified growth across geographies and industries.

Tenants now face limited leverage across urban centers and CBDs

The majority of CBD tenants will face tight conditions ahead with shrinking space options and continued rent appreciation projected through 2015. This trend will be exaggerated for large tenants who will face a market with a scarcity of quality large blocks and thus in many ways be forced to look at either proposed or under construction projects or renewing as the best option over the shorter term. In both of these scenarios, large tenants can expect heightened rents; on the development side alone, the majority of markets around the country are quoting new construction rents running at a 15.0 to 25.0 percent premium to existing Trophy and Class A averages.

Overall, vacancy levels in the CBD have decreased from a high of 15.9 percent in the beginning of 2010 to 14.2 percent at the end of the third quarter, a rate that is within 50 to 100 basis points of equilibrium where markets experience consistent and stronger rent growth and development cycles. In recent quarters, vacancy rates have ticked up slightly as new space, largely in New York and Washington, has delivered to the market with vacancy. These two markets, withstanding Midtown South in Manhattan, do not fit the bucket of markets running away from tenants. Both of these geographies will be more challenged over the near term not just due to new space delivering, but more so challenges in the banking, law firm, government / contracting sectors, which will provide tenants with enhanced leverage through the majority of 2014 and into 2015. While New York and Washington remain challenged, momentum in the super-Trophy segment of the market has grown in recent months. Top-tier buildings have filled up and landlords have even flirted with pushing rent a bit or, at least in the case of Washington, holding rents and putting a ceiling on concessions. It will take 12 to 18 months though for this trend to trickle down into the commodity sector.

CBD markets that are seeing strong demand levels, limited options and thus swiftly increasing rents include

- Raleigh / Durham – 6.3 percent vacant
- Charlotte – 7.3 percent vacant
- Midtown South (Manhattan) – 8.5 percent vacant
- Portland Central City – 9.2 percent vacant
- San Francisco – 9.8 percent vacant
- Austin – 11.2 percent vacant
- Pittsburgh – 11.3 percent vacant

Suburbs are starting to shift too, albeit slowly

While the suburban markets have lagged the CBD markets in overall performance—for example, higher vacancy levels, lower absorption levels throughout most of the recovery and limited rent growth to date—market tightening has begun to take shape in 2013. Most suburban markets have now finally reached the bottom of the market cycle. Overall, the suburbs have tightened with vacancy dropping from a peak of 20.4 percent in the first quarter of 2010 to 18.3 percent at the end of the third quarter. As vacancy has dropped, rents are growing. Rents jumped by 1.6 percent in the third quarter of 2012, by far the highest rate of growth in a quarter in the recovery. Further, rents are up 3.3 percent over the past 12 months, a slower rate of growth compared to urban locations, but nonetheless an accomplishment after some five years of rent decline or stagnancy.

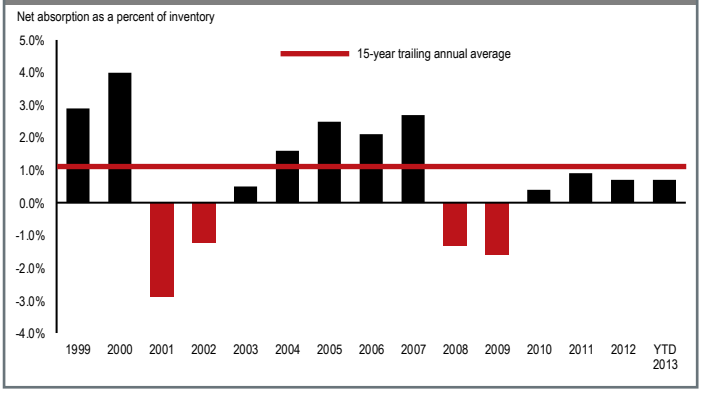
As a result of a more tepid recovery on behalf of the suburbs, the gap between CBD and suburban rents has continued to swell. In the beginning of 2010, the difference in overall rents between the CBD and suburbs clocked in at $11.36 per square foot; at the end of the third quarter of 2013, that number swelled to $15.60 per square foot, a record high over the past 10 years.

Yes, the recovery has been slow, but gaining momentum of recent in the suburbs, but when looking at that market tightening, it is important to break down the 'burbs between inner suburbs and outer suburbs (usually determined by transportation loop or belt) and / or suburbs with walkable amenities, a destination or access to transit and those buildings lacking those characteristics. Currently, it is the inner suburbs and suburbs with amenities or transit that have reached bottom and are now seeing greater demand and thus rent appreciation and concession compression. Town center locations, quasi-urban settings and even office parks with character and destination theme to them are seeing increased momentum and even the ability to increase pricing based on that higher demand. In contrast, farther out suburban markets and submarkets are lagging and many of those markets from New Jersey to Northern Virginia to Chicago to Los Angeles have not seen conditions change significantly and thus, those markets likely have another 12 months to even 24 months-plus of more stagnancy and enhanced leverage for tenants.

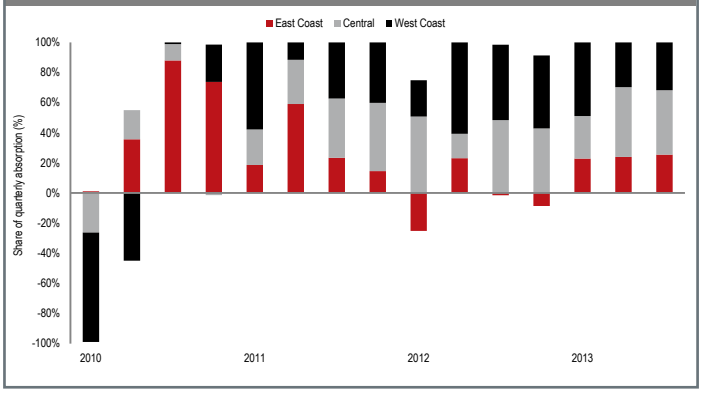
Looking ahead

Fortunately for the overall economy and office sector, the U.S. private sector has developed Washington fatigue. Yet in the next week or several weeks should a shorter term extension form, despite this fatigue, Washington will hold the key to 2014 prospects. Should Washington return to a functional player in the economy and push through solutions on both the government debt limit and the shutdown, projections for economic growth in 2014 and 2015 look strong and the office market recovery, which has picked up speed dramatically in 2013, will likely see the size and scale of that recovery grow further. Any misstep, though, by Washington, like we have seen throughout the past couple of years, could derail a recovery that finally has founds its ground.

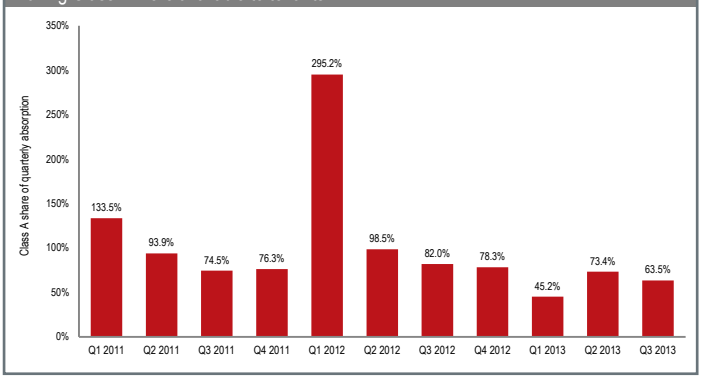
YTD 2013 absorption matches annual 2012 figure, on track to overtake in Q4



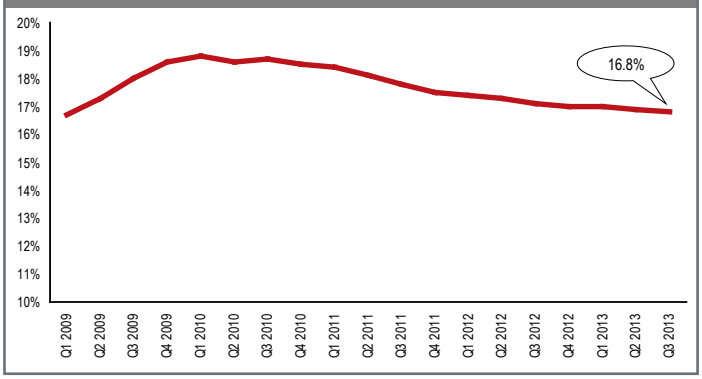
Absorption remains more evenly spread than in previous quarters; NYC and DC still lag



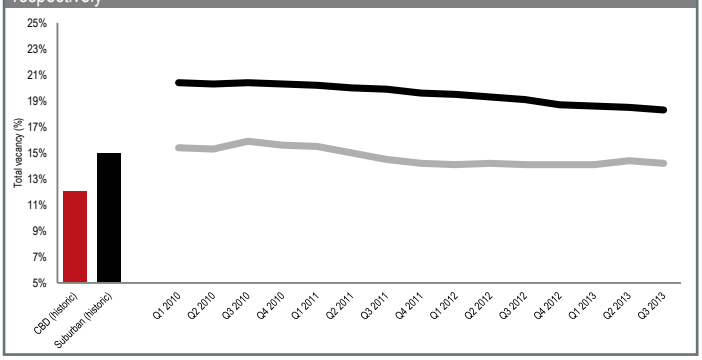
Little new supply, diminishing blocks of space are limiting Class A's share of absorption and making Class B more available to tenants



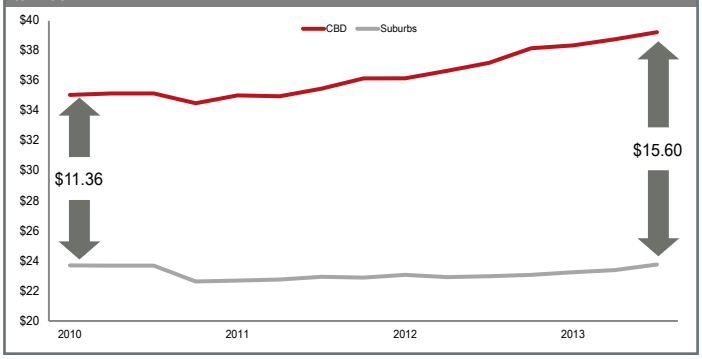
Total vacancy still falling very slowly, but has finally dropped below 17.0 percent



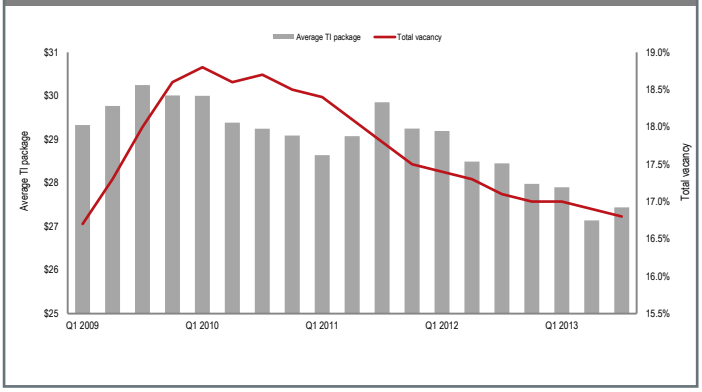
CBD and suburban vacancy both down 20 basis points to 14.2 and 18.4 percent, respectively



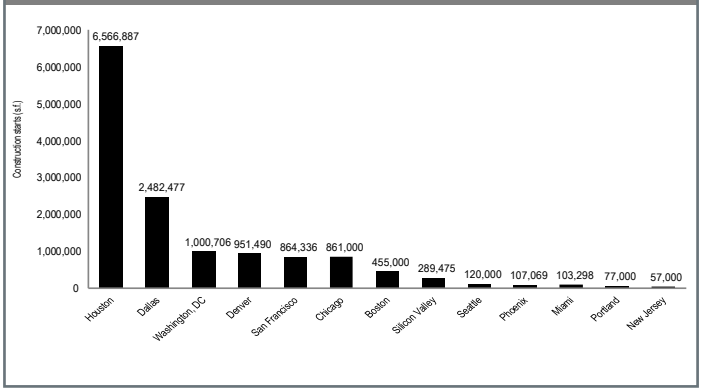
With recovery moving at a quicker pace in the CBD than suburbs, rent gap continues to widen



TI packages remain low as vacancy continues to fall

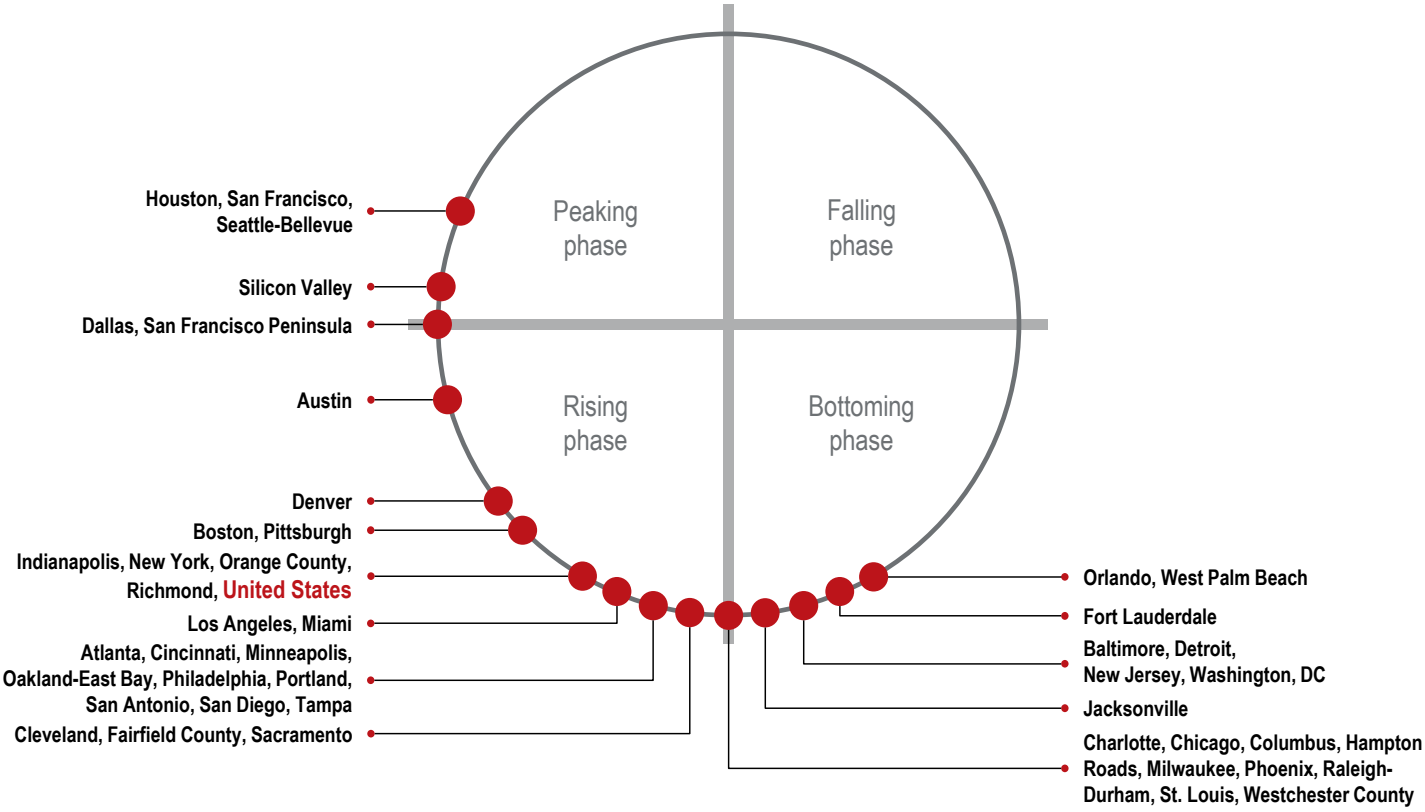


The vast majority of new construction starts have been in Texas



Source: Jones Lang LaSalle

United States overall office clock



Reading the clock

The Jones Lang LaSalle 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 whereas markets on the right side of the clock are typically tenant-favorable.

At the end of the third quarter of 2013, 28 markets were positioned beyond 6:00 and an additional nine markets sat at 6:00 at the end of the quarter. What does that mean for landlords? More consistent rent growth than we have seen in recent years; overall rental growth across markets was 1.4 percent quarter-on-quarter, the greatest quarterly increase posted throughout the recovery so far. Across the country, asking rents for office product increased more than 1.5 percent during the quarter across CBDs driven by larger rent increased in New York, San Francisco, Los Angeles, Silicon Valley (San Jose) and Portland. Meanwhile, the suburbs also posted gains of 1.5 percent, led by rent growth in Northern California, Seattle, Cambridge (Boston) and Denver. In addition to landlords pushing rent, concessions remain at a recovery-wide low of 5.4 months of free rent and have wavered around $27.40 per square foot depending on the quarter.

Even in the two most challenged demand markets of late, New York and Washington, DC, we began to see the prime part of the market, the Trophy segment, start to show signs of stabilizing and even rent growth. In New York, Midtown leasing, which had previously lagged the rest of the market, found its foothold in the top tier of Trophy properties (above $80.00 per square foot), while in Washington, DC, the Trophy market is also gaining momentum with a number of leases signed in excess of $50.00 NNN (+$75 per square foot) with a new development, 900 16th Street, NW, recently setting a record for a new lease term with a tenant committing to lease the majority of the building for a low-$60s NNN rent, equating to a rent in the high-$80s per square foot full service, earlier this year. If this momentum holds in both these higher-end markets, we could see a broader-based recovery in the two largest markets nationally headed into 2014.

Overall, the scarcity of quality large quality blocks will help urbanized Trophy and Class A product continue to lead momentum and rent growth during the recovery. Although this has led to new construction in some geographies, leverage will likely remain with landlords for the next 18 to 24 months at a minimum. The first markets to be tested with this new construction will be San Francisco, Austin, Houston, Dallas and Silicon Valley. Although current demand levels support the level of construction under way, we will be watchful of dynamics over the next quarter or two as an overbuilding cycle in some market segments could develop and cap rent growth.

The near-term tightening in the top-end of the market should also trickle down to propel the commodity A and Class B markets in urbanized environments, while noncore suburban product still lags behind the rest of the market and is likely to languish for the next few quarters, at a minimum, based on a fundamental shift of tenants to migrate to efficiency, amenities and transit.

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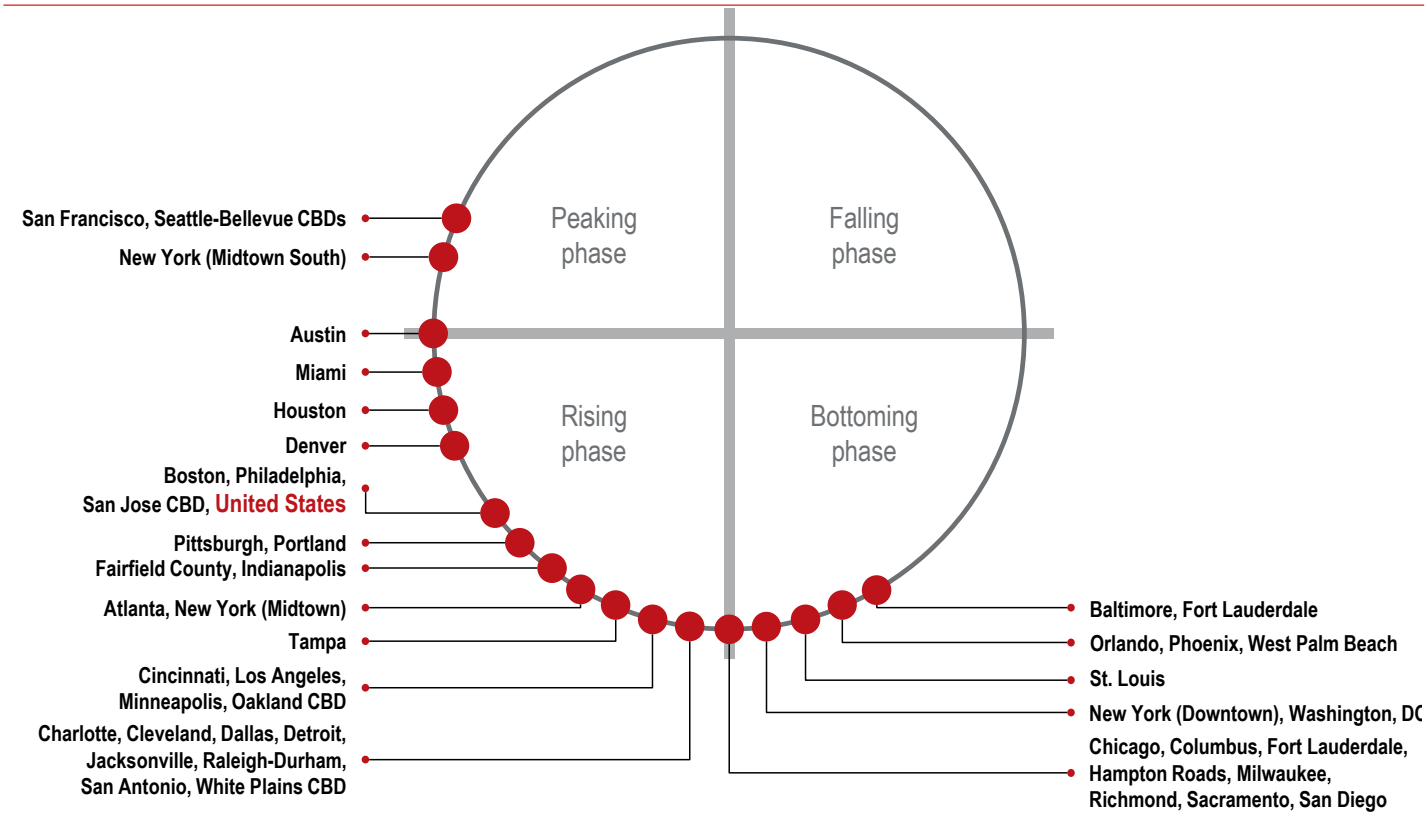
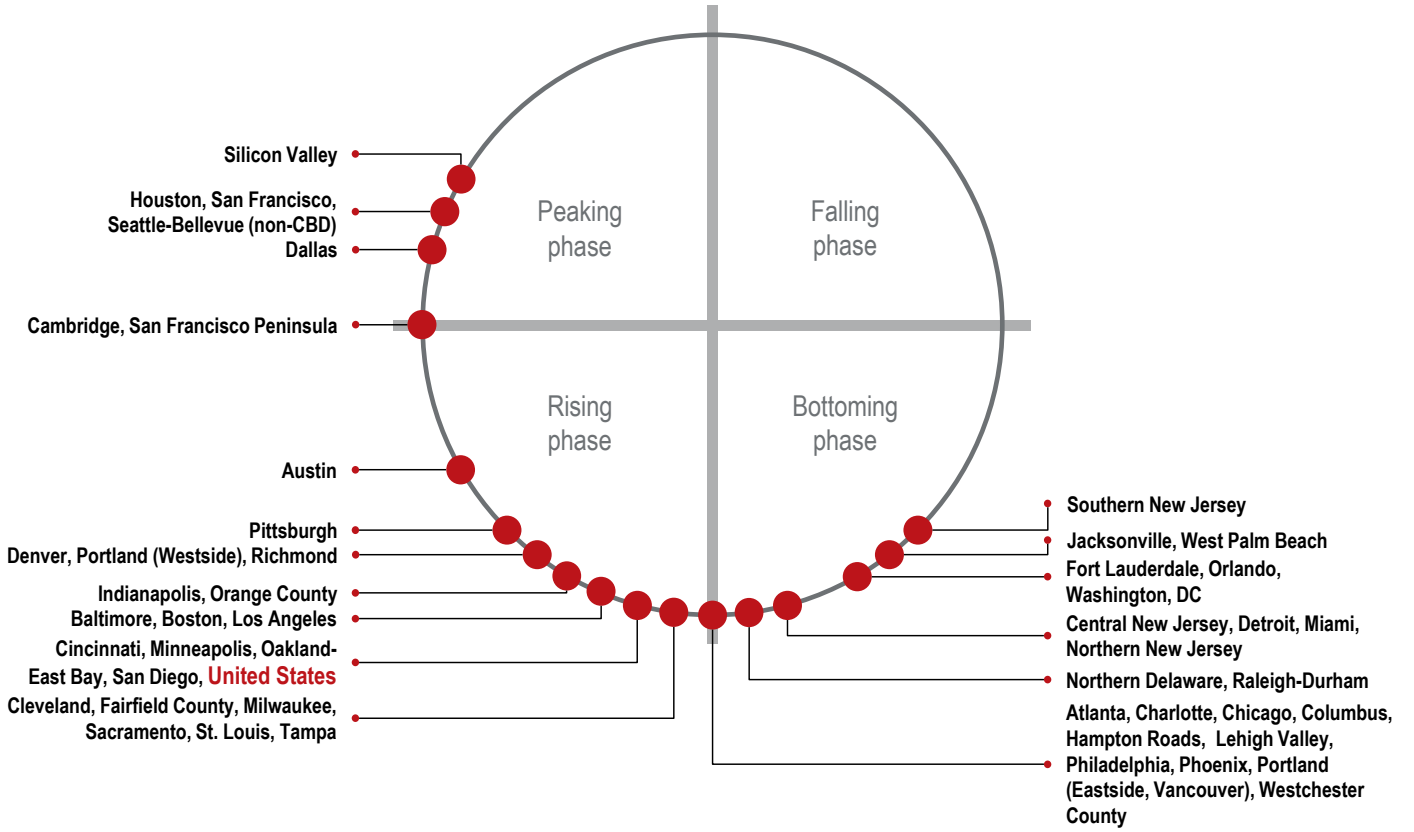
United States CBD office clock



United States suburban office clock



United States economy

Nine months into 2013, the U.S. economy appears to be growing at a more stable and consistent rate. Employment growth continues to move forward, driven by technology, energy, healthcare, hospitality and education. Coupled with a resurgent housing and construction sector, the geographic recovery is starting to grow more quickly than it did in 2011 and 2012. Meanwhile, when looking specifically at the office sector, white collar employment growth remains very strong with limited unemployment (below 4.0 percent), record-high employment levels and continued record corporate profits.

Although the economy is beginning to find its footing, both domestic and global issues threaten to stifle further improvements. Domestically, the government shutdown and impending encroachment of the debt ceiling remain major impediments to further recovery. Compounded by the uncertainty over when the shutdown will end and the action that will be taken over how to deal with the debt ceiling, there is a very real possibility that GDP and subsector output will not meet annual targets, while the home stretch of 2013 could see stunted performance that negates some of the gains made earlier in the year. Government employment, which remains one of the few subsectors to post contraction rather than expansion, is likely to be a continued drag on employment growth figures at the same time as decreased government consumption pulls down output volumes. While these issues can easily be resolved, growing uncertainty mounts as we move farther into the shutdown and closer to the debt ceiling deadline. Resolve in Washington would cement solid footing for 2014 and 2015 prospects, while lack of movement would upend the recovery, which finally appears to be gaining steam.

Geography of employment growth shifting in line with office performance

Year-to-date 2013, the U.S. economy has added 1.4 million jobs, 1.0 percent higher than the same period in 2012. On average, a net gain of 180,375 jobs has been created each month, slightly up from previous years. Of 2013's job gains, 456,000 (31.6 percent) were in professional and business services alone, although PBS only comprises 13.7 percent of national employment. Compared to earlier in the recovery, growth is no longer concentrated in the office-using sectors. Consistently, leisure and hospitality as well as healthcare have been large drivers of monthly and annual job creation, while increases in PBS have been driven by temporary help services. Traditional office-using industries such as financial activities and legal services remain suppressed and have only recovered around one-fifth of lost jobs since 2009, a trend we are seeing mirrored in office demand levels as both industry sectors have not only been stagnant due to limited hiring, but also significant givebacks of space in the market due to more efficient space utilization.

From a geographic perspective, the location of job creation has shifted as well. In 2012, tech markets were hubs for new jobs, with markets such as San Francisco, Seattle and Silicon Valley posting 12-month percent changes of 3.5 to 4.5 percent per month. As the recovery has moved onward, overall employment (as well as office employment) growth has shifted to Texas, where Austin, Dallas and Houston have been the beneficiaries of a significant state surplus attracting new companies to the state, coupled with both the energy and tech sectors growing in the Lone Star state. In particular, office-using job growth has been strong in Dallas, which is posting gains in excess of 8.0 percent over the past 12 months as of mid-2013. Austin, Dallas and Houston have been responsible for approximately 10.5 percent of new job creation over the past year, despite representing just 4.6 of the U.S. population.

Housing market up, but a way to go before normal

The U.S. housing market has also displayed signs of progress with year-to-date housing starts above their 2012 counterparts by 80,200 permits, or 25.7 percent. At 392,800 starts since the beginning of 2013, YTD housing starts have reached their highest level during the recession so far and are only 5.4 percent below 2008 levels. Additionally, the valuation of new starts and home prices have also seen a faster-than-usual bump due to a combination of limited new supply and slowly increasing demand.

That said, the housing market faces a number of challenges, namely that annual and YTD starts are still well below historic averages. Home prices have also only recovered somewhat; of the 33.7 percent of value lost on average during the recession, only 13.5 has been gained back. Overall, homes are worth 75.2 percent of their peak 2006 value. Finally, home ownership is still tracking downward, reaching just a record low rate of 65.0 percent in 2013 as the market begins to correct itself.

Importantly, the slow, but steady, gains in the housing sector have boosted job gains in many markets. Of note, Sunbelt markets have seen improved office-using employment growth. Los Angeles, Orange County and Phoenix have posted 12-month growth in this aggregate around the national average of 2.5 percent rather than occupying the lowest spots of major metropolitan areas. Rising interest rates and the resultant slowdown in demand as well as delays in the mortgage application process due to the government shutdown may hamper some of the bright spots in the housing recovery in the short term, although it will not likely stop the recovery from moving forward, just slow it down a bit.

Government, unfortunately, remains the final factor in the U.S. economy

The public sector domestically remains a drag on employment and related economic indices. To say nothing is being accomplished or resolved in Washington is now definitely an understatement. No policy or legislative environment exists as consensus around immigration reform, energy exploration, regulation, entitlement reform and tax overhaul have been thrown out the window to focus on extending or missing deadlines and getting government back to work.

Both the recent shutdown of the federal government and the upcoming debt ceiling debate are emblematic of spending issues that will ultimately impact the economy, confidence levels and office markets across the nation. Government-reliant and government contractor metros such as Washington, DC, Baltimore, Hampton Roads, the South Bay of Los Angeles, San Antonio, parts of San Diego and parts of Central Florida will be most affected with higher levels of government and or government contractor presence. Over the past five years, an 11.6 percent increase in federal government receipts has been overshadowed by a 23.1 percent growth in expenditures. So long as federal spending remains nearly double as fast as saving, funding issues and debt ceiling discussions will become an increasingly prominent and frequent point of political tension and, in turn, uncertainty. Further, as long as these balances exist, the microscope on GSA leasing levels, federal procurement contracts and other related government spending initiatives that highly impact the private sector will likely continue to decline

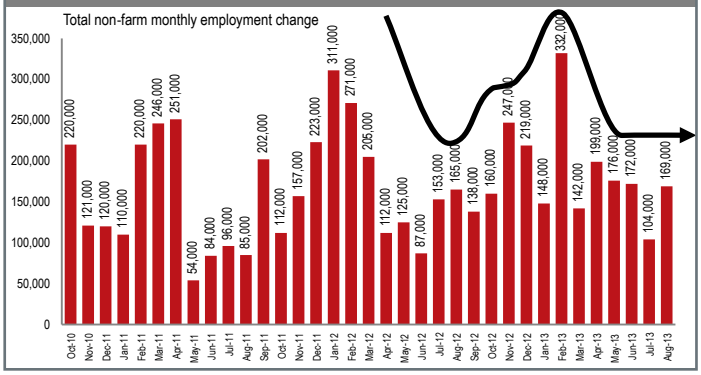
There is also a lack of clarity as to how the implementation of new healthcare and fiscal regulation and legislation will affect government employment. Total public sector employment has contracted by 0.4 percent over the past 12 months with state employment declining by 0.8 percent and federal jobs down 2.5 percent. This is despite hiring increases certain to come with further implementation of the Affordable Care Act and Dodd-Frank, especially now that healthcare exchanges have opened their doors to the public and regulatory reform has yet to take shape across the board.

Excluding government, national employment is at 98.8 percent of its pre-recession peak. The U.S. economy will stay somewhat bogged down in its recovery as long as fiscal issues continue to recur, in spite of growth seen across the majority of subsectors. The extent to which government will be either a net positive or negative to the broader recovery will ultimately be determined by its ability to agree on critical funding measures and proactive planning and solutions in the long term on the mandatory spending programs of Medicare, Medicaid and Social Security, which eat up 65 cents of every federal dollar spent.

As peak employment approaches, job composition will be much different

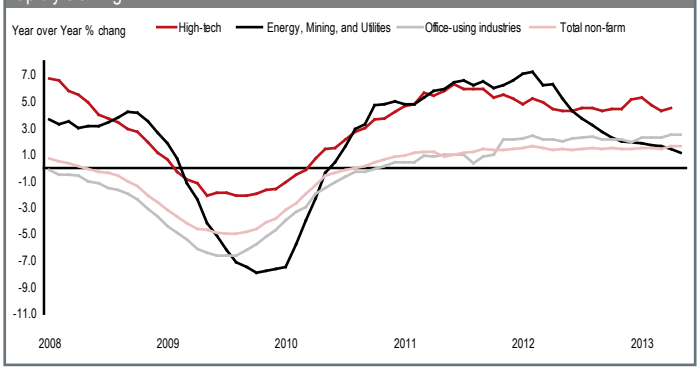
The increasing rate of private sector job creation, currently 2.1 percent year-on-year, is likely to offset the public sector pulling down growth figures. Assuming consistent monthly growth, we will see total nonfarm figures reach its pre-recession peak in less than a year. But this new composition will be greatly different than before the recession, with a much greater rate of part-time, creative, health and scientific employment instead of finance, law and trade. The office market will have to adapt to this new paradigm, as many markets have already demonstrated signs of doing, while the government must be vigilant about putting jobs, economic growth and legislation ahead of partisan politics in order to create a national economy that can be trusted to incubate stable and diverse gains in a variety of sectors, both private and public.

Employment growth in 2013 more consistent than earlier in the recession

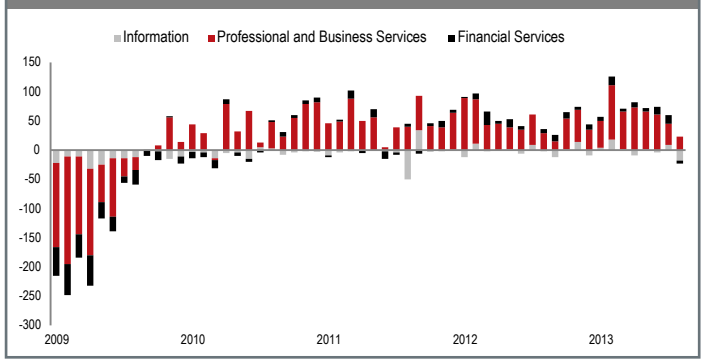


78.0 percent of jobs have been recovered from the recession

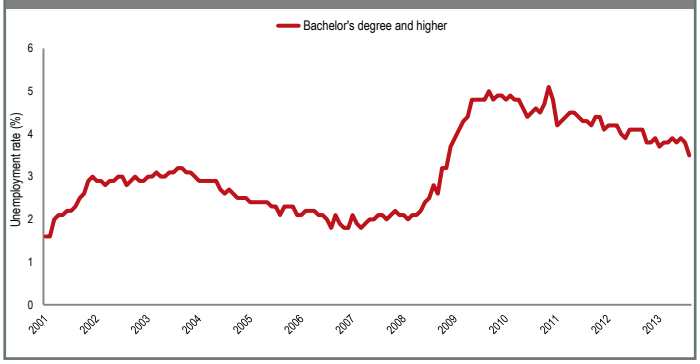
Tech increasing again, but year-on-year energy, mining and utilities employment growth rapidly slowing



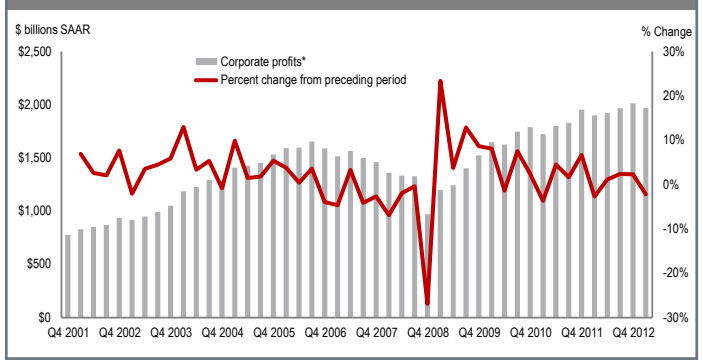
Although August was a blip, office-using job growth otherwise relatively consistent



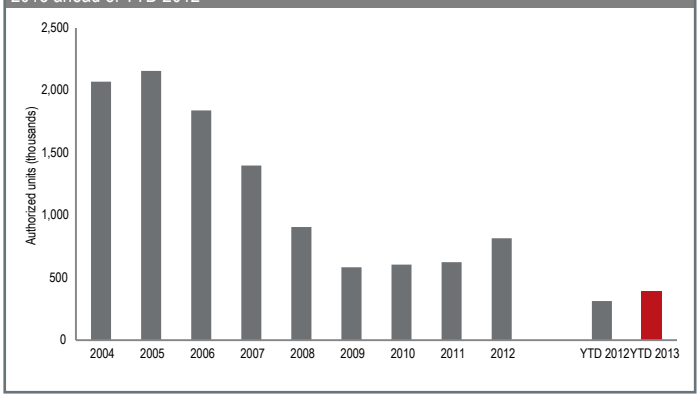
The unemployment rate for those with a bachelor's degree is now only 3.5 percent



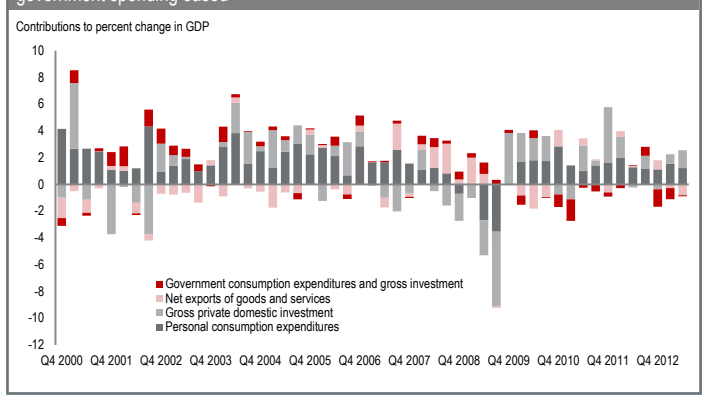
Corporate profits decline by 2.2 percent from Q4, but private sector remains healthy



Housing market on the rise: fourth consecutive year of more authorized units and YTD 2013 ahead of YTD 2012



Private investment and consumer spending drove GDP growth, while the drag from government spending eased



Source: Jones Lang LaSalle, Bureau of Labor Statistics, Bureau of Economic Analysis, economy.com
Note: Corporate profits with inventory valuation and capital consumption adjustments, data only available through Q1 2013
Due to data lags, high-tech employment only available through April 2013

United States capital markets

Investment sales momentum continues during third quarter despite new recent volatility

The 2008 Financial Crisis which led to the bankruptcy and collapse of Lehman Brothers, the announced acquisition of Merrill Lynch by Bank of America, as well as the Federal Reserve's initial $85 billion bailout of AIG, was marred by such incidences that all occurred in September of that year. Fast forward to 2013 and enhanced fears of the government defaulting, coupled with the $85 billion stimulus by the Federal Reserve by way of its monthly bond buying program and the possible curtailment of related purchases, prompted new volatility during the third quarter of 2013. Such volatility did not subside until the Federal Reserve announced recently this past September that it will hold off on tapering. Despite overreaction up to this announcement, which led to a rise in Treasury yields and interest rates, investment sales volume activity overall did not slow down its momentum.

For the office sector in particular, the end of the third quarter of 2013 marked the best third quarter performance since the 2007 peak year. Based on preliminary totals, estimated sales volume for office transactions nationally came in just above $25 billion during the third quarter, representing a 43.0 percent increase over the same period in 2012. Year-to-date through September, office sales volume growth is tracking close to 32.0 percent annually. Although volumes have grown steadily each quarter in 2013 for the office sector and there is the potential for further upside in Q4, we are mindful of further volatility related to upcoming events in Washington. Accordingly, we remain cautiously optimistic and continue to estimate growth in office investment sales volume to be in the 15.0 to 20.0 percent range for the full year.

New highs and lows characterize lending environment, which remains healthy among the players

Beyond the second quarter through most of the third quarter, Treasuries spiked 125+ basis points up through the beginning of September, with the 10-year Treasury yield reaching a new high close to 3.0 percent. Increases here created new opportunities for balance sheet players to become more competitive in their lending. In spite of this activity, highly rated CMBS spreads remain at post-crisis lows and CMBS lenders managed to increase their new issuance to a level of $61 billion through September, which represents a new post-crisis high. Barring any new major unknown disruptions, we expect the overall lending environment to remain healthy through the remainder of the year to provide ample capital for real estate investment.

Stronger competition grows in secondary markets

While still healthy in most primary markets, office transaction volumes continue to grow in secondary markets. During the third quarter, this was most notable in the Atlanta market, where volumes so far have surpassed each of the prior two years by more than 50.0 percent driven largely by strong demand for core product, as well as improving leasing fundamentals. As demand and thus pricing continue to rise across primary markets and core product, we expect investors to continue to search for yield across suburban and secondary markets and thus increasingly focus on core-plus and value-add plays to meet yield expectations. As of the third quarter, office secondary market share closed the quarter at 45.0 percent or two percentage points above 2012 levels as strong demand was not only realized in Atlanta, but also Houston and Dallas.

Investor flight to 'safer' properties remains prominent, even five years after recent Financial Crisis

As real estate markets continue their recovery post the 2008 Financial Crisis, investor flight to 'safer' properties with high occupancy will remain favored among most investors, particularly as movement occurs further along the risk spectrum. At the same time, we shall continue to see leasing demand slowly spread from core to core-plus product in some locations, and even to value-add product. As investors continue to seek out real estate investment opportunities in the U.S. despite volatility, safety and stability will remain top of mind.

Transacted office assets during the third quarter continued to have significantly greater average occupancy than that for the overall national office market, coming in at 91.1 percent. In addition, while Treasury yields rose during much of the quarter before moderating slightly by the end of September, the office yield premium over risk-free rates remains attractive. Having currently widened by just 15.0 basis points, property yields for all transacted office property fell in a 280 to 380 basis point range for the end of third quarter. With the overall national average office cap rate hovering around the 6.4 percent level, we believe leveraged buyers still have room to absorb any potential increases in overall mortgage financing rates.

Improving leasing markets likely to lead increased activity in the investment sales markets

We acknowledge that investor challenges related to volatile interest rates, legislative instability in Washington and reset global growth and disruption could potentially weigh heavily on investor activity across U.S. markets ahead. However, now five years post the 2008 Financial Crisis, and when comparing the consistent and steady growth we have continued to see in the U.S. in recent quarters to markets around the globe, we believe domestic and international investors will view the positive momentum exhibited so far during 2013 as a reason to continue to explore and aggressively place capital in the U.S. office sector ahead. As the recovery still broadens and barring any new major unexpected uncertainties (i.e., no resolution to the debt ceiling), we will likely increasingly see investors grow their appetite from urban core to additional product across more geographies and also with more risk.

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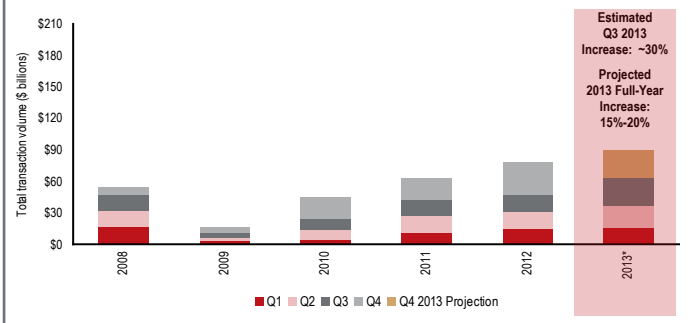
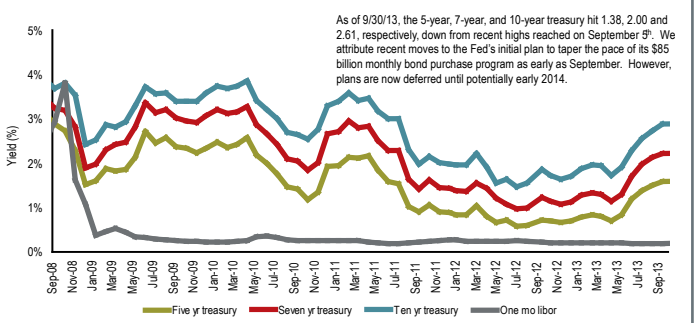
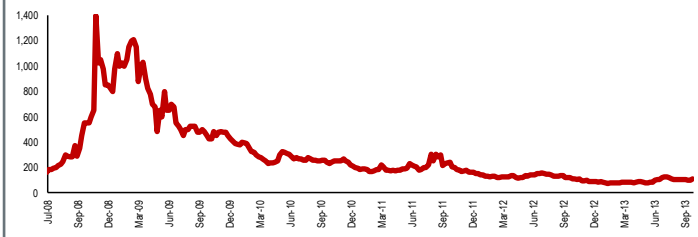
U.S. office transaction volumes up 52 percent in Q2, and 28 percent for 1H 2013; expect strong growth for 2H 2013



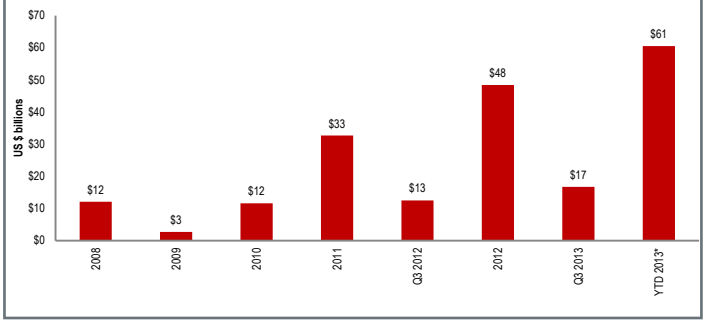
Benchmark treasury yields have risen since mid-May, but remain relatively low from a historical perspective and have drifted down from recent highs reached on 9/5/13



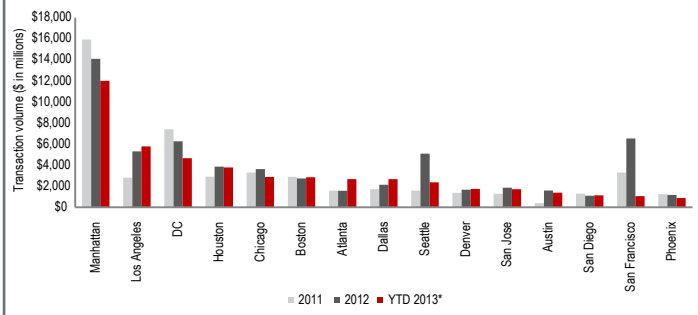
After rising by 45+bps during Q2, highly-rated CMBS spreads have now tightened by 15-20 bps during Q3 2013 and remain at post-crisis lows



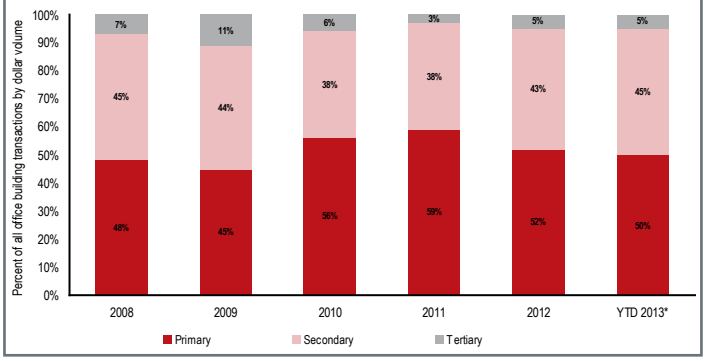
New CMBS issuance of $17 billion for Q3 2013 compares to $13 billion a year ago; year-to-date level of $61 billion represents new post-crisis high



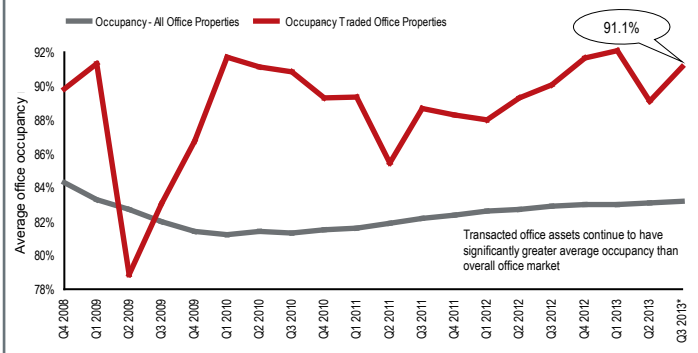
Most primary markets remain strong through Q3 2013; secondary market activity is the strongest for Atlanta and ahead of past two years



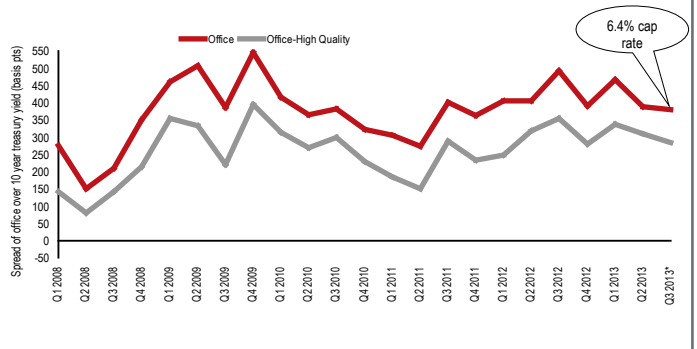
Competition growing stronger in secondary markets through Q3 2013



Investor flight to 'safer' properties remains prominent, even five years after financial crisis



Office yield premium over risk-free rates has tightened given rise in treasury yields, moderating slightly by quarter-end; still attractive in a 280-380 basis point range



Source: Jones Lang LaSalle, Bloomberg, Real Capital Analytics, Moody's Analytics, Commercial Mortgage Alert

United States local office markets

Atlanta

Economy

Atlanta's economy continues to recover and, since this time last year, the metro has gained 57,100 jobs. Layoffs have abated and unemployment claims are down 25.9 percent since July. Beyond State Farm, which alone has brought 800 new jobs to the city, Atlanta welcomed PulteGroup to its new headquarters in Buckhead this summer. The homebuilding company made headlines when it departed its longtime suburban location in Detroit for Class A tower space in Atlanta's Urban financial district. Three hundred jobs were added. Several other large-scale out-of-market prospects continue to scout Atlanta for corporate relocations. Also boding well for the investment grade office market, professional service job growth has been a particularly positive bellwether. Firms within that sector are high demand users of office space and we have begun to see accounting, financial services and engineering groups adding back jobs. Even Atlanta's much beleaguered construction industry has started hiring once again as large-scale development projects across property types kick off or reboot.

Conditions

Job growth has led to 10 consecutive quarters of positive demand for Atlanta. Not unexpectedly, the net new requirements have stemmed from a variety of industry sectors given the diversity that is typical of Atlanta's tenant base. However, demand has diverged geographically. With recovery once concentrated almost solely in Buckhead followed by Central Perimeter, positive growth has now spread to the neighboring Midtown submarket. Northwest's Cumberland Galleria node has also begun to see demand resurface. Activity in the remaining submarkets has been comparatively quiet. North Fulton, a usually bright node for high-tech, back office and call center activity has not made back gains with the same velocity as was seen in the wake of the tech bubble driven recession in the early 2000s. Many software groups and digital/creative media have recently begun to exhibit willingness to less traditional high-tech submarkets like Midtown and Buckhead.

Outlook

Class A opportunities for sizable tenants in Buckhead and Central Perimeter have waned. In the latter, State Farm still seeks another 100,000 square feet. That alone would lower direct Class A vacancy there to just over 12.0 percent. Due to the narrowing availabilities in Buckhead and Central Perimeter, demand could very well funnel to the companion submarkets of Midtown and Northwest, respectively. Each pair share similar characteristics, amenities and geographies, but only Midtown and Northwest still offer a variety of space options. Investment sales activity has seen a marked pickup in pace for both fully tenanted assets and value-add plays. Still, the flow of capital lending here remains comparatively slow as overall vacancies are elevated when put up against similar markets. At a micro level, geo-demographics have been a critical influence on the success or failure of a submarket's rebound. Quality assets in well-located areas with great infrastructure and amenities have been ruling the day.

- Sarah Dasher
Research Manager, Atlanta

Austin

Economy

Unemployment this quarter came in at 5.2 percent for the Austin-Round Rock-San Marcos MSA, or nearly one percentage point lower than this time last year. Unemployment in the state of Texas was 6.3 percent this quarter, and the national rate was 7.3 percent. Austin currently has 846,800 nonfarm payroll jobs and is now 8.1 percent ahead of its pre-recession peak jobs total.

Conditions

Construction is continuing downtown at IBC Bank Plaza, Colorado Tower, Seaholm and 311 Bowie, and the redevelopment of the old Bank of America building at 501 Congress is under way. Vacancy in the CBD has continued to diminish over the course of 2013, currently hovering at around 10.0 percent. Rental rates downtown are still climbing, rising 0.6 percent this quarter alone.

Vacancy in the Austin office market has declined to 12.9 percent—over two percentage points lower than this time last year. Rate increases are not isolated to downtown, with citywide quoted rental rates jumping 1.1 percent over the past three months and 4.3 percent year-over-year. Continued supply constraints are driving tenant demand to new submarkets, resulting in a tightening of supply and higher quoted rents. This trend is most evident in Class B space, where rental rates have increased 6.2 percent in the South submarket and 2.9 percent in the Central submarket in the last quarter alone. Even in the more warehouse and flex-oriented Northeast submarket, rates at Class B office buildings have risen 2.6 percent in the past three months.

Total net absorption this quarter was a modest 88,048 square feet, bringing year-to-date absorption to just 525,486 square feet. Leasing activity ticked up 10.8 percent from last quarter, totaling 1,012,675 square feet. Significant requirements currently circling the market indicate that leasing activity will remain strong through the end of the year.

Outlook

The city of Austin has consistently boasted one of the strongest economies in the country during this recovery, and, as a result, investors remain bullish on the Austin market, with several significant office building sales closing this quarter. Over three million square feet of Class A and B office space traded hands this quarter alone. Most notably, Thomas Properties Group, which owns five of Austin's Trophy buildings downtown, was acquired by Parkway Properties. With few significantly sized blocks of vacant office space available, a greater number of tenants in the market are looking at build-to-suit options, and the number of land requirements and sales have increased sharply over the past few months.

- Meredith Sheeder
Research Analyst, Austin

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Baltimore

Economy

The Baltimore metropolitan economy posted another solid quarter of job growth with year-over-year gains near 2.0 percent. The unemployment rate, which had spiked earlier in the summer to nearly 8.0 percent, eased downward to 7.5 percent. The most notable employment gains came from the financial sector, which saw payrolls grow by 2,500 jobs compared to last year. Professional business services and education & health services also grew at a respectable pace of 4.2 percent and 2.5 percent, respectively. The government sector, however, shrunk by 6,600 jobs in July, which is the largest drop in nearly 10 years.

Conditions

Sale and leasing activity focused largely on the southern suburbs as well as Harbor East in Baltimore City, which saw several large leases. The majority of the activity in downtown Baltimore was driven by an ongoing flight to quality: Ellin & Tucker leased 32,000 square feet of new construction at 400 E Pratt Street in a relocation within the submarket. The Johns Hopkins Cary School of Business backfilled a portion of Legg Mason's sublet space in 100 International Drive and Morgan Stanley expanded in 1300 Thames Street. The downtown market also saw its first non-distressed investment sale at 201 N Charles Street, which was 92.0 percent occupied, but traded for approximately $72 per square foot. Outside of Harbor East and Pratt Street, landlords continue to struggle with chronic vacancy that has led to an increasing number of obsolete office buildings to be considered for conversion to residential apartments. In the suburban markets, Columbia and Hunt Valley posted the largest occupancy gains in the third quarter. Vacancy for Class A space in the I-83 North submarket fell to its lowest level in five years largely due to tenants migrating north from Timonium and Towson. Move-ins from a range of private sector tenants helped to offset several new vacancies from federal government contractors. Tenant activity in Anne Arundel County near Fort Meade was expectedly low compared to prior years, but Deloitte did take a floor totaling 29,042 square feet at 420 National Business Parkway. The U.S. Army Corps of Engineers' latest requirement landed in 125,000 square feet at 312 Sentinel Way, but the Corps will not take occupancy until late 2015.

Outlook

The Baltimore office market will likely continue to gradually tighten in the coming quarters as the regional economy recovers. Submarkets with a diverse tenant base, especially including health and education services, will likely see the steadiest net absorption. The growth potential remains highest near Fort Meade and the NSA revolving around the cyber security industry, but continued discord surrounding the federal deficit and sequestration may hamper significant near-term net new leasing.

- Patrick Latimer
Senior Research Analyst, Baltimore

Boston

Economy

Total employment for Greater Boston has well surpassed pre-recession levels and it is now possible that parts of the region will have employment levels that meet or exceed those of the dotcom era by the end of this year. Employment levels in office-using jobs are just now reaching pre-recession levels, indicating that rents in the Greater Boston area may begin to rise at a faster rate as more office-using firms officially enter growth mode. Rents in Greater Boston already grew 3.9 percent this quarter alone, primarily due to strong growth in Cambridge, the Boston CBD and the Northwest submarket. Furthermore, while the pace of job growth slowed over the course of the summer, hiring picked up significantly at the end of the third quarter, making it so that 50 percent of jobs added this year were added in the past two months alone. This shift in momentum could be the early signs of a rise in confidence. Whether this confidence is sustainable given recent developments in Washington remains to be seen.

Conditions

The demand statistics at the Greater Boston level suggest a flat quarter with a modest 27,000 square feet of direct net absorption, but this hides the nuances that occurred this quarter at the submarket level. The Financial District, now referred to as Downtown, saw a few large blocks come to market as both direct vacant (AIG Space) and future available (Goodwin Procter and PWC both have announced build-to-suit projects in the Seaport).

Beyond Downtown, the Seaport District and the Back Bay remain at mid-6.0 percent vacancy levels indicating that options for space are starting to become rather sparse. Spillover demand to neighboring micro markets continues to persist. Asking rents are up 3.5 percent this quarter, driven by high-tech tenants looking to establish downtown presences and a positive employment outlook.

In the suburbs, 128/MassPike and the Northwest submarkets continue to dominate. The vacancy rates in each submarket declined by 80 and 40 basis points, respectively, and asking rents continue to rise.

Outlook

Given where the Greater Boston area is in terms of recovered office-using jobs, the lack of supply in many in-demand markets and recent leasing activity that suggests a higher rate of "renewal with expansion"; Boston could be reaching a tipping point where rents rise at a rapid pace. The build-to-suit related move-outs do weigh on Downtown fundamentals, but those spaces will not be vacant for several years. A window of rapid rent growth may be upon us.

- Lori Mabardi
Vice President *Research, Boston*

Charlotte

Economy

In line with the steady activity earlier in the year, the third quarter saw Charlotte's office market continue on the road toward a full-scale recovery. Capital funneled to the Queen City, vacancy rates dropped, rental rates showed signs of growth and construction activity returned to the market. The current 9.1 percent unemployment rate remains inflated as compared to other metros in the Carolinas and the Southeast. Still a top five growing MSA in the United States, Charlotte's population continues to grow at a record pace with Mecklenburg County eclipsing one million residents in August. The Charlotte MSA, with 60.1 percent of the population below the age of 40, and 40.4 percent of the population above the age of 25 with a Bachelor's Degree (or higher), is poised for significant employment growth moving forward.

Conditions

With two consecutive quarters of positive absorption, the Charlotte metro has bounced back from the first quarter delivery of the speculative developments in the Ballantyne Corporate Park. The third quarter of 2013 saw the most significant occupancy in four quarters. The positive absorption experienced in seven of the nine submarkets, particularly the Airport and University submarkets, more than compensated for large addition of vacancy in the beginning of the year. A number of large deals contributed to the quarter's net absorption: Duke Energy, Charlotte School of Law, WestMed Practice Partners and TIAA-CREF, amongst others. Additionally the large deal activity from this year like MetLife, All State and Yodle are signs that positive net absorption should be expected moving into 2014.

The vacancy rate, now at 15.6 percent, continues to hover near its lowest point since the recession, having dropped 510 basis points since the mid-year mark of 2010. Activity remains concentrated in the Class A assets, but is expanding past the premier submarkets (CBD, Highway 51 / Ballantyne, SouthPark).

Outlook

Charlotte's bifurcated recovery continues to expand out from the premium, amenity-rich submarkets as the Airport and University submarkets have posted positive net absorption in every quarter so far this year. As today's deals in premium markets continue to drop off from their record concessionary pricing seen just a few quarters ago, some of the metro's outlying assets are drawing attention as value alternatives. Meaningful vacancy erosion could continue to occur if the increased tour activity endures without negative economic indicators spooking tenants to remain on the sidelines.

- Ross Howard
Research Analyst, Carolinas

Chicago

Economy

Metro Chicago economic conditions are slowly showing improvement with unemployment falling 50 basis points to 9.2 percent. In August, growth in Chicago nonfarm employment slowed in comparison to the previous three months, but not as much as it slowed in the summer months of 2012. Since 2010, we have seen Chicago area employment dip in the summer months, rebound by October and post a positive year-end gain. With the post-recession employment market being so cyclical in recent years, it is likely it will recover in the fall. Office sectors continued to dominate the metro employment gains, comprising 57.6 percent of the net new jobs.

Conditions

In the CBD, there are still only a few large tenants in the market with near-term expirations so landlords will continue to modify their office products to appeal to small and medium sized tenants and compete for the few large tenants to absorb their block availabilities. The local employment market is expected to expand through the end of the year and beyond. This progress along with other positive news such as the emerging high-tech industry will drive business growth in the near term and, with that, office employers will continue to hire and require additional space. Even though it is a few years away, once River Point is delivered, the market for Trophy blocks is expected to loosen slightly, particularly if a second new building commences.

The announcement of Zurich's build-to-suit was the largest suburban news in the third quarter. The 720,000-square-foot planned building that will house its North American headquarters, is scheduled for Motorola's campus, which will mean the company will vacate its current headquarters at 1400 and 1450 American Lane in 2016. Additionally 26525 N Riverwoods Boulevard in Mettawa, currently the suburban home to Capital One, has become available entirely for sublease. With Capital One moving employees downtown to 77 W Wacker Drive in the Chicago and Atrium Corporate Center in Rolling Meadows, the North submarket will have a large vacancy coming due in 2014. The Muscular Dystrophy Association announced it will be moving its headquarters from Tucson to Chicago. These large vacancies and increasing operating expenses will create an increased need for landlords to be aggressive, creative and flexible.

Outlook

The near-term outlook includes a CBD that will see tenants continue to compress their office space needs, while at the same time evaluate their public transit options, which are increasingly important to recruiting efforts, especially in River North and the emerging River West area. Class C buildings are being removed from the competitive office building inventory, instead being renovated to luxury rental lofts and boutique hotels; we expect this trend to continue into early 2014. Meanwhile, the suburbs are seeing some build-to-suit projects as first generation, prime Class A space is in tight supply due to a dearth of new construction extending back several years. Still, vacancy is down to 2009 levels and the suburbs remain a cost effective place to have office space with abundant parking options and much shorter commutes.

- Robert Kramp
Vice President, Research, Chicago

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Cincinnati

Economy

Cincinnati's economy continues to grow at a slow but steady pace. Despite losing 4,000 metro jobs in July, reducing total nonfarm employment to 1,017,000, employment remains in positive territory year-over-year, up 140 basis points. As of August, the unemployment rate decreased to 7.1 percent, down 30 basis points year-over-year and 20 basis points below the national unemployment level. Office employment industry sectors continue to dominate this growth, posting annualized net job gains for the last 25 months. This is despite continued losses in the government and information sectors. In fact, the net gains can be mainly attributed to the professional and business services sector, whose continued growth has created nearly 14,000 jobs over the last two years.

Conditions

Leasing activity slowed during the third quarter, typical of this time of year, with approximately 500,000 square feet of identified transactions. The largest lease of the quarter was by General Revenue, a provider or collection services, which leased 53,000 square feet at Governor's Pointe Office Park. Net absorption was negative for the quarter, at a loss of 37,165 square feet. Despite this, absorption remains in positive territory year-to-date, at 125,213 square feet. While absorption gains have not been particularly large over the last three years, they have been positive, helping to slowly push down the metro's vacancy rate to 18.7 percent.

Much of the same this quarter on the construction front, as multiple projects approach their completion dates. The largest of these developments includes continued construction on DunnhumbyUSA's and Paycor's headquarters of nearly 315,000 square feet and 136,000 square feet, respectively. Both sites expect delivery in 2014. Sales activity provides the centerpiece of market conditions this quarter, with the sale of Atrium One by Convergys to Smith/Hallemann Partners for $43.4 million, or $76 per square foot. Smith/Hallemann Partners acquired the building with equity from its own proprietary private investment partnership and about $38.0 million in non-recourse financing provided through Des Moines, Iowa-based Principal Financial Group. Atrium One, home of other tenants such as Omnicare Inc., Accenture LLP and NorthgateArinso, remains near 84.0 percent leased.

Outlook

Touring activity and leasing volumes are expected to hold steady through the end of the year as multiple requirements are currently out in the market. For those tenants evaluating options, large blocks of space remain prevalent both downtown and in the suburban submarkets. Asking rents have slightly increased and are expected to hold steady, preserving tenant-favorable conditions through 2013. The continued construction of several projects will keep the development pipeline occupied, but little to no speculative office construction is expected over the near term due to still-un-aligned supply-demand fundamentals.

- Andrew Batson
Senior Research Analyst, Great Lakes

Cleveland

Economy

Following a 32-month run-up of annualized jobs growth, Cleveland's economy has taken a step back of late, posting year-over-year losses the last five months. As of August, total nonfarm employment stood at 1.0 million, a reduction of 7,900 jobs year-over-year, or 80 basis points. Meanwhile, the unemployment rate continues to tick down, currently standing at 7.0 percent, down 20 basis points year-over-year, result of over 1,600 discouraged workers exiting the labor force. The professional and business services sector continues to hemorrhage jobs, posting annualized net losses for six consecutive months. In August alone, this sector registered a reduction of 6,100 jobs year-over-year. Cleveland's silver lining continues to be the education and health services sector. Employing 19.1 percent of Cleveland's labor force, this industry sector has posted annualized job gains each year since 2004.

Conditions

Leasing activity held steady in the third quarter and the metro posted sizable absorption gains. Net absorption for the quarter was just shy of 500,000 square feet, driven mostly by the delivery of the Ernst & Young Tower and subsequent move-ins. While the tenants moving into the tower were not necessarily expanding their footprint, they were moving from lower class buildings not tracked by Jones Lang LaSalle and thus resulting in positive absorption in our statistics. Tenants flight to class is a reoccurring theme in Cleveland and evidenced by the Ernst & Young Tower opening near 90.0 percent leased.

In the suburbs, the East submarket continues to see the strongest demand and consistently posts among the lowest vacancy rates, currently at 13.4 percent. The submarket will also be welcoming a new tenant shortly, as Omnova Solutions announced that it plans to move from Fairlawn to a new corporate headquarters in Beachwood, 11 miles east of downtown. The announcement ends a two-year site selection process in which Jones Lang LaSalle acted as the company's real estate advisor. The company plans to buy 8.5 acres and break ground this fall on a two-story, 57,000-square-foot building with construction wrapping up in late 2014. The plan will enable the company to move its 110 corporate employees to Beachwood by the time its lease expires on its current building. Omnova expects to add 70 jobs during the next five years at the future Beachwood campus.

Outlook

Large blocks of space among Class A assets remain nearly nonexistent across the metro which will limit large occupiers to either renew or enter into built-to-suit projects such as Omnova did. 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 weak employment numbers observed thus far this year, little to no office demand growth is expected in the short term.

- Andrew Batson
Senior Research Analyst, Great Lakes

Columbus

Economy

Total nonfarm employment in Columbus sits at 969,900, just below the all-time high reached in June of 972,400 jobs. While employment growth has tapered off from the 2.0 and 3.0 percent annualized gains observed in 2011 and 2012, the metro continues to steadily add jobs. As of August, employment was up 17,000 jobs year-over-year or 1.8 percent. Meanwhile, the unemployment decreased to 6.3 percent, down 150 basis points year-over-year. The office-using employment sectors continue their streak of strong performance, posting cumulative net gains for 40 consecutive months. These gains have been mostly driven by the financial activates and professional and business services sectors.

Conditions

Leasing velocity held steady in Columbus through the third quarter and year-to-date total net absorption pushed beyond 460,000 square feet. As a result, vacancy across the metro declined to 15.9 percent, with Class A vacancy in the CBD at a mere 7.9 percent. The quarter's largest deal was by Columbia Gas, a division of NiSource Inc., which announced that it would lease 279,000 square feet in the 288,000-square-foot office building currently under construction in the Arena District. The office building is being developed by Nationwide Realty and is expected to be completed next fall. Columbia Gas was originally expected to take about 208,000 square feet. The expansion announcement will make it the sole office tenant in the building, leaving just 8,000 square feet of retail space available on the first floor.

Office construction activity remains elevated in Columbus, with a handful of projects currently under way totaling over 500,000 square feet. That number is expected to grow in the coming months following the announcement of a $50.0 million, 12-story office and apartment project by the Daimler Group and Kaufman Development. The mixed-use development project located at 250 South High Street downtown will include 136,000 square feet of office space on the first five floors and 150 apartments on the upper floors. The project would mark the first high-rise development downtown since The Condominiums at North Bank Park opened in 2008. Construction could start as soon as November and be completed in 2015 if the developers can secure office tenants in the next few months.

Outlook

Touring activity and leasing volumes are expected to hold steady through the end of the year as a number of tenants are currently 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 find ample available space options. With landlords still eager to fill vacant space, rents will see little change and concessions will remain plentiful, preserving a tenant-favorable market through 2013.

- Andrew Batson
Senior Research Analyst, Great Lakes

Dallas

Economy

The Dallas economy continues to show strength with a below-average unemployment rate of 6.0 percent and year-over-year net growth of 111,000 (one of the highest in the nation). The job growth has been widespread with traditional office sector employment (business services and finance) making up a significant portion of that growth.

Conditions

Dallas recorded 369,205 square feet of positive net absorption in the third quarter, making the year-to-date total a very strong 1.5 million square feet. Most of the net absorption has been concentrated in three submarkets: Far North Dallas, Las Colinas and Richardson/Plano.

The Dallas total vacancy rate decreased to 20.6 percent and overall average asking rates increased to $21.22 per square foot (full service gross). At the submarket level, rates have been rising in the submarkets with tighter market fundamentals (Uptown, Preston Center, Far North Dallas and Las Colinas) and still decreasing in the challenged submarkets like LBJ and Stemmons Freeway.

Outlook

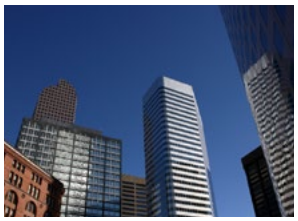
With above normal demand and almost no new construction since 2010, the market vacancy has tightened in most submarkets to the point that market sentiment has shifted from tenant-favorable or neutral conditions to a landlord market. Rates overall have increased as a result, but the Dallas average asking rate has only increased moderately (2.2 percent) over the past year. This change in the asking rate does not accurately capture the rise in effective rates, which have seen significant increases in four of the nine primary office submarkets.

The development pipeline, which had been largely dormant over the past three years, has increased substantially this year. This much anticipated surge in construction is a combination of built-to-suit and speculative construction projects. The current pipeline now totals over 4.4 million square feet, which is well above the historic norm. Since 2000, an average of 3 million square feet has been completed. With a two-year lag time for most office construction projects, continued upward pressure is expected for most submarkets over the next two to three years until supply becomes more in line with demand.

The current roster of active tenants in the market looking for space indicate that the current construction level of speculative projects is justified, but there is some concern of overbuilding if several of the planned and proposed projects are added to the pipeline over the next two years.

- Walter Bialas
Vice President, Research, Dallas

Denver



Economy

Metro Denver's unemployment rate was 6.9 percent in July, down 1.1 percentage point from one year ago. As unemployment continues a steady decline, job growth is occurring with a 2.8 percent employment base gain over the past year. The professional and business services, construction and natural resources and mining, and leisure and hospitality services industries have led this employment gain over the past 12 months. These gains are expected to continue, which will help stabilize economic growth over the mid-term. Accordingly, office demand is expected to accelerate throughout the last quarter of 2013 and into 2014, which will yield landlord-favorable conditions across the majority of submarkets.

Conditions

Leasing activity totaled nearly 1.9 million square feet in the third quarter. Direct net absorption for the third quarter totaled nearly 570,000 square feet, but decreased to just over 566,000 square feet when including subleases. Year-to-date, the market has absorbed over 1.3 million square feet of direct space and nearly 1.1 square feet of total space, including subleases. Lateral relocations and renewals occurred most often, yet expansions and new deals are taking place more frequently. The Southeast Suburban and the CBD yielded the majority of the absorption for the quarter with over 590,000 square feet of direct net absorption combined.

Asking rates remain the highest in the CBD, with an overall average of $29.25 per square foot compared with $20.85 per square foot in the suburban submarkets. During the third quarter, rates increased in almost all submarkets throughout the Denver market. The increase is becoming apparent in most submarkets as landlords have started to gain market leverage.

Tenants with requirements larger than 100,000 square feet had 13 options throughout the Class A market. 1801 California in the CBD had three of those large blocks, providing some relief in a tight submarket. Speculative construction plans are back on the table and 1601 Wewatta Street in the CBD is under construction with a 299,990-square-foot, Class A building that plans to deliver in May 2015.

Outlook

Growth in the oil and gas industry will continue to be an economic driver. Leasing activity is expected to increase in the coming quarters due to that force and several others. Landlords have gained leverage in the CBD and will continue to gain leverage in many of the suburban submarkets, causing effective rates to rise with less free rent and fewer tenant concessions. Market momentum and forecasts indicate a strong year ahead as job growth continues to develop, driving further economic growth.

- Amanda Seyfried
Research Analyst,
Denver

Detroit

Economy

Detroit's economy continues to improve slowly, adding 9,000 jobs year-over-year in August, an increase of 50 basis points. While jobs gains across the metro in 2013 haven't been to the levels observed in 2011 and 2012, they at least remain in positive territory. Detroit's unemployment rate continued to tick down in August, coming in at 9.8 percent, a reduction of 120 basis points year-over-year. While this is still high in comparison to much on the country, considerable progress has been made since July of 2009 when the unemployment rate hit 16.9 percent. Office-using employment sectors in particular have cooled of late, posting annualized losses for the last six months, driven mainly by cuts in the government sector.

Conditions

Capital markets activity remained lively through the third quarter, particularly in the CBD, with three office towers changing hands. The sale of the 302,000-square-foot Detroit Free Press Building in the CBD was the largest transaction of the quarter. The Class C property was sold by Florida-based investor Emre Uralli to an undisclosed buyer for $4.0 million, or $13 per square foot. Also taking place downtown was the sale of Crain Communications' former headquarters at 1400 Woodbridge Street. The 78,000-square-foot Class C asset was purchased by ME Enterprise LLC for $2.7 million, or $34 per square foot. Enterprise plans to renovate the office building, which sits on five acres, and look for a tenant to lease the space.

Construction activity has been virtually nonexistent across the metro over the last five years, but that all could be changing soon as Detroit-based Meridian Health Plan announced plans to lease the majority of a 320,000-square-foot office tower downtown being proposed by Schostak Brothers & Company. The office tower is expected to be 16 stories with first-floor retail space and a 1,000-space, nine-story parking deck. The total project cost is estimated at $111.0 million. The project would represent the first office building to be constructed in Detroit's central business district since One Kennedy Square began in 2005. The Detroit Brownfield Redevelopment Authority is considering awarding $27.0-million in brownfield tax incentives to the project for site preparation and infrastructure improvements.

Outlook

Total vacancy has continued to decline since hitting a record high of 29.2 percent in the first quarter of 2011. With consistent employment gains experienced over the last 12 months, total vacancy is expected to continue its downward trend through the end of 2013. That said, over 15.5 million square feet of office product remains vacant, ensuring tenant-favorable conditions across most submarkets for several years. Rental rates 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

Fairfield County

Economy

The local economic story did not change markedly during the summer months of 2013. Subdued employment growth persisted, growing 0.9 percent year-over-year. One positive change was a small rebound in office-using employment which, after retracting during the second quarter, added approximately 500 jobs during the third quarter. On a more sobering note, Fairfield County has only regained about half the jobs lost during the recession, while many other competing local economies, including Manhattan, have fully recovered. The missing link continues to be a lack of new and expanding industry to scaffold employment growth. While there are a handful of major high-tech firms in the market, industry growth is isolated to these select few. There is a dearth of a wide pool of smaller high-tech firms that would significantly drive the labor market. The absence of grass-roots employment recovery is in turn holding back significant progress in the local office market.

Conditions

Overall office market fundamentals were flat quarter-to-quarter, which alongside weak employment indicators, could be a positive thing. The overall vacancy rate remained elevated at 23.0 percent, up marginally from 22.7 percent at the mid-year point. The overall average asking rent, however, showed some momentum, increasing to 2.5 percent $34.10 per square foot during the last three months. Pockets of strong absorption in suburban submarkets such as the Greenwich Non-CBD, Westport and Danbury/Bethel were offset by large blocks coming online in the more typically popular Greenwich CBD/Railroad and Route 7 Corridor submarkets. The addition of space at Greenwich Plaza spiked Class A vacancy in the Greenwich CBD/Railroad to nearly 29.0 percent – far and away the highest vacancy recorded in at least a decade. In terms of velocity, activity levels are not robust, but not off substantially from last year at this time. Conditions in the Stamford CBD/Railroad have also stabilized after a weak first half. UBS sublease space is continually being absorbed at 400 Atlantic Street with a mix of new tenants and expansions by current tenants. There is also rumor of a Deloitte shuffle that could result in increased absorption levels for the submarket through year-end. Despite the uncertainty on the supply side, rents showed some rebound, increasing 4.6 percent during third quarter to $48.75 per square foot.

Outlook

There are a number of opportunities in the Fairfield County office market that could enable recovery to transcend labor market weakness. Start-up activity increased so far this year compared with years past, which could be an indicator for new industry formation in the market. Moreover, recent geographical diversity in activity will set the stage for a wider – and therefore more sustainable – growth platform.

- Erin Patterson
Research Manager,
Fairfield County

Fort Lauderdale

Economy

Broward County's August unemployment rate fell below 6.0 percent for the first time since May after two straight months of increase. Currently, the Broward County unemployment rate is 5.8 percent, a 40 basis point decrease from July and 190 basis point decline year-over-year. While the majority of employment gains continued to be realized in retail/hospitality sectors, office-using employment has gained some momentum, particularly the financial sector, of late. The sector has increased payrolls 5.7 percent since this time last year, and the majority of those jobs have been added in the past three months. Financial services is the only office-using sector to see significant monthly and yearly gains; however, employment in the sector is still far below peak levels.

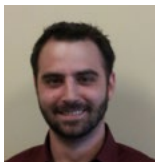
Conditions

Alongside the increase in financial services employment, a significant portion of leasing activity has comprised firms in that industry. USI Insurance, Sawgrass Mutual Insurance, and real estate firm Cushman & Wakefield all executed sizable leases this quarter. Overall, though, leasing activity has been muted this quarter, but the market continued its steady pace of tightening.

Tenants took occupancy of just over 90,000 square feet this quarter countywide, closing out the fifth straight quarter of positive absorption (the longest such streak since 2005). The market has absorbed 277,000 square feet so far this year, or 1.2 percent of the county's inventory, outpacing gains seen in all of 2012. As a result, total vacancy is now 18.0 percent, the lowest level since 2009 and 200 basis points below its peak of 20.0 percent at the end of 2011. The vast majority of absorption has been in Class A product, as rental rates continue to be discounted compared with years past. More importantly, 41.7 percent of all absorption gains have occurred in the CBD, which comprises only 21.1 percent of the County's overall stock.

Outlook

The CBD should continue to tighten over the course of the year and into early 2014 as sizable tenants take occupancy after signing large leases earlier this year. In turn, rents should continue to tick upward. There is still a significant amount of vacant space throughout the County, but as the CBD tightens and downtown rents increase, the migration from the suburbs to the CBD will slow (this year the "flight to quality" has intensified); in addition, the tour activity has been on the rise, particularly among larger tenants. Positive signs are emerging for the market going forward.



- Marc Miller,
Research Analyst,
Fort Lauderdale

Hampton Roads

Economy

Federal funding buoyed Hampton Roads through the recession, but future spending cuts and uncertain policy inhibited long-term decision making for the areas' defense contractors. Personnel restructuring at Fort Eustis and mass layoff notifications from the area's largest employers inspired little confidence. Despite looming defense cuts due to a second round of sequestration, the Hampton Roads employment base averaged 3.0 percent growth year-to-date, nearly three times the state average. The reemergence of hiring for the financial sector added roughly 3,600 payroll positions over the trailing 12 months as well as 2,500 positions in the professional services industries.

Conditions

Weak leasing activity and space reductions produced paltry rental rate growth and vacancy reductions over the past several quarters. Although vacancy declined year to date, availability rates continued to rise, up 60 basis points over the past four quarters to reach 20.9 percent currently. A wave of sublease space is to blame with 132,419 square feet placed on the market in that time frame, most stemming from defense contractors shedding space. Aggressive competition between landlords maintained a tenants' market with concession packages weighing heavy on the table, more so in Downtown Norfolk where an approaching mid-size renewal was still under negotiations between two office towers.

Sales activity dwindled and per square foot values remained compressed due to a large volume of troubled assets coming to market, two this year with a total loan balance of $66.6 million. Coupled with portfolio sales, overall year-to-date values averaged $55 per square foot compared to top-market transactional values for fully leased Class A assets, which averaged $165 per square foot over the past three years.

Outlook

Resolutions to federal spending and defense budgets will create stability for the Hampton Roads market; however, continued political gridlock will increase the availability rate moving forward due to slower demand and rightsizing by contractors. Expect an increased volume of sublet space coming to market, providing discounted rental rates to firms outside the contractor arena. Short-term renewals and lease extensions with termination options will prolong lease negotiations; however, with few new deals entering the market, landlords will remain complacent with these terms.

- Geoff Thomas,
Research Analyst,
Richmond

Houston

Economy

Houston's office market continues to benefit from its robust economic environment, one which added approximately 97,700 new jobs in the 12 months ending July 2013, a 3.6 percent annual increase. Record growth within the energy and engineering subsectors continues to lead the way with every one direct energy job creating an additional four jobs for the market. Houston is by far leading the national jobs recovery, adding 202 percent of the jobs lost during the most recent recession.

Conditions

Houston's office market maintained its high level of leasing activity entering 2013, with the third quarter registering just over 1.0 million square feet of positive absorptions. Houston's core six submarkets continue to lead the way in positive absorption. Within these niche areas, the majority of occupancies took place in the CBD (+326,154 square feet), Katy Freeway (+375,673 square feet), the Galleria (+83,779 square feet) and Westchase submarket (+101,028 square feet). Large gains were also made in the Northwest (+75,663 square feet) and the Woodlands (+324,463 square feet). Even with new construction, both the Woodlands and West Houston submarkets continue to show tightening vacancy rates with sub-4.0 percent and 9.0 percent vacancy, respectively.

Vacancy rates in key submarkets continue to decrease, with five submarkets having single-digit vacancy rates, and overall construction numbers have now soared past 6.0 million-square-foot mark, registering 6.5 million square feet this quarter. While this new construction could potentially alleviate tight submarkets, the vast majority of the new product is coming to market at or near 100 percent preleased and remains focused in the Woodlands, West Houston, and the Galleria.

Outlook

As the calendar begins to turn toward 2014, Houston's most in-demand submarkets will continue to be landlord-favorable both in rental rate increases and tightening of tenant concessions. While it is hoped that new developments and deliveries slated for the Galleria, West Houston and the Woodlands in 2014 will create a rate ceiling to go into effect for existing blocks of availability, the vast majority of these new builds are already preleased and will not allow for market tightening to be alleviated.

- Graham Hildebrand
Research Manager,
Houston

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Indianapolis

Economy

In July, the Indianapolis unemployment rate declined 40 basis points to 7.5 percent. Meanwhile, with just under 1.0 million workers, the Indianapolis labor market held steady over the previous 12 months increasing by 0.8 percent during the past year. Two employment sectors saw noteworthy growth, leisure and hospitality increased by 9.3 percent (the largest percentage increase of any sector) while trade, transportation and utilities sectors added the most number of jobs (196,800) since the third quarter of 2012.

Additionally, the mortgage foreclosure rate slipped to 2.3 percent in July, down 110 basis points from the previous year. According to CoreLogic, which tracks foreclosures nationally, the foreclosure rate locally has fallen every month since April 2012 and led to improving fundamentals across the for sale residential market.

Conditions

Office market conditions held steady during the third quarter of 2013. At 16.1 percent, total vacancy was flat over the previous quarter. Average asking rent declined in the third quarter but at $16.94 per square foot, rates were up $0.15 per square foot compared to this same period last year.

Office expansions outweighed contractions creating net absorption this reporting period, fueled by positive employment growth. Changes in health care and complementary services, unsurprisingly saw the most volatility in the market as Indianapolis is a major regional medical center with a significant bioscience and pharma- science presence. Area hospitals, such as IU Health and St. Vincent, announced layoffs, while insurance and consulting firms promised to grow their head counts over the next few years. Still, with construction starts being limited (see the Concourse at Crosspoint) and concessions holding steady, Indianapolis' office market equilibrium is sustainable throughout the remainder of 2013.

Outlook

The region's strength in the high-tech and bioscience sectors, which have been darlings of the employment recovery give reason for a positive outlook on the local job market. More so, Indianapolis employment market has a larger than average share of the office-using sectors of financial activities and professional services. As employers in those sectors continue to hire they will need to expand their footprints and with that, the market will continue to post positive absorption. Recent news of businesses like American Specialty Health and Knowledge Services relocating to or expanding in Indianapolis are a testament to the market's business-friendly environment and low cost of living and those advantages will continue to sustain the local economy in the near term.

- Robert Kramp
Vice President, Research, Chicago

Jacksonville

Economy

As with the rest of a booming Central Florida, Jacksonville is recovering from the recession just fine. Office-using labor sectors have grown 2.8 percent year-over-year, the largest annual increase since 2006. In addition to having the largest annual increase, office-using labor sectors are currently responsible for 39.7 percent of the total nonfarm payroll, the highest percentage this century.

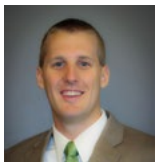
Conditions

The Jacksonville central business district has captured 2.2 percent of its total stock thus far in 2013, posting positive six straight quarters with a positive four-quarter rolling total. The last time this market saw a trend similar to this was from Q3 2006 to Q2 2008. Meanwhile, in the suburbs, the four-quarter rolling total has been positive for 14 straight quarters, shifting the direct vacancy in the suburbs down below both the five-year and 10-year moving averages to 15.1 percent.

Looking at the market as a whole, rents have shown appreciation for the past consecutive four quarters. Class A rents are currently right at the 10-year average of $20.12 per square foot, but remain below their pre-recession max by $1.55 per square foot, or the equivalent of 7.2 percent. Class B rents on the other hand have not reached their five-year or 10-year averages, but are appreciating faster than their Class A counterpart. Rents for the lower quality product remain 11.3 percent below their max. Furthermore, the premium for a tenant to lease Class A space is current $4.38 per square foot for the suburbs and $3.43 per square foot for the CBD. The suburb's premium is above the historical average by 29.4 percent, while the CBD's premium is below the historical average by 3.6 percent. Both premiums are decreasing from their current positions.

Outlook

We expect the market to continue to tighten through the end of the year. This is due to payrolls historically expanding in the fourth quarter after contracting in the summer, coupled with the historic trends of the real estate market. Out of the past eight years, the fourth quarter has registered the highest level of leasing activity in six of those eight years. Rents are expected to increase more than vacancy is expected to decrease due to current vacancy rates resting below their historical averages.



- Ryan Vaught
Research Analyst, Central Florida

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Los Angeles

Economy

Los Angeles County's unemployment increased in August, reaching 10.1 percent from 9.9 percent in July, but still an improvement from 10.9 percent a year ago. The entertainment sector experienced the largest declines with 4,600 jobs lost in August. Government, which continues to seek efficiencies, shed more than 1,700 jobs. On a positive note, Los Angeles-based education, healthcare, construction and manufacturing reported gains of approximately 1,500 jobs in August.

Conditions

Legal firm, financial services and engineering firms accounted for a healthy share of leasing activities in Downtown and the Tri-Cities. However, the entertainment/new media and advertising industries continue driving growth in markets like the Westside and South Bay. We expect this trend to continue as more large corporate users are setting up shop in and around Playa Vista.

Los Angeles capital market activity remains buoyant with a large number of transactions closing during the third quarter. Additionally, high-visibility portfolios have been put on the market. These include the Equity Office-owned Howard Hughes Center, totaling 1.2 million square feet; the 3.0-million-square-foot Century Tower in Century City owned by JP Morgan; and Thomas Properties Group's 2.6 million-square-foot City National Bank Plaza, in Downtown Los Angeles.

Outlook

The Los Angeles economic outlook remains strong, but confidence could easily fade if the budgetary issues in Washington are not quickly resolved. In the Downtown market, no additional large contiguous blocks of space are expected to hit the market, paving the way for moderate gains ahead. Although law firms and banking tenants still dominate the Downtown landscape, owners are increasingly targeting a more diverse tenant base, including creative and entertainment companies. Renewals will continue to play a large part in leasing with little or no organic growth seen in the upcoming years. Tenants from outside the market are likely to be the sole drivers of new demand. Alternatively, the Westside is already an established home base for many media, technology and mobile industries. These sectors and expected to see continued growth and will drive new requirements. Additionally, we expect investors to take a closer look at Los Angeles, which is reasonably affordable relative to other gateway markets.

- Henry Gjestrum
Senior Research Analyst, Los Angeles

Miami

Economy

National and statewide employment figures were below expectations with the unemployment rate rising in the majority of states. Florida, however, was not one of those states and at a seasonally adjusted 7.1 percent was down from 8.7 percent 12 months ago. Miami's rate was likewise down to 8.4 percent from last year's 9.7 percent. Labor force participation in the metro area, however, was down during the same period – by 2.0 percent or nearly 27,000 people. In terms of absolute numbers, Miami's top industry gainers over the year were trade, transportation and utilities, retail trade and leisure and hospitality. The highest percent increases were posted among retail trade, leisure and hospitality and the financial activities' sectors at 4.1, 4.0 and 3.1 percent, respectively. Construction's specialty trade contractors subsector also posted a notable increase at 3.2 percent during this time.

Conditions

Year-to-date absorption was virtually evenly divided between the CBD and the Suburbs with the Class A sector dominating Miami's new occupancy by a wide margin. The majority of Miami's inventory is comprised of Class A buildings. The CBD's Class A vacancy was reduced by 2.1 percentage points since year-end 2012. As such, both the Brickell and Downtown sectors (which combined make up the CBD) are positioned to move into more balanced/landlord-favorable conditions sooner than their Suburban counterparts. During the same time period, the Suburb's Class A vacancy fell by 1.4 percentage points. Overall vacancy for every submarket, however, remains in the double digits with the metro area still facing nearly 6.4 million square feet of direct and sublet vacant space.

Outlook

Numerous cranes now dot the CBD horizon. On the ground, large swaths of the urban core and parts of the outlying Midtown market resemble virtual construction sites. Intense growth of commercial and residential product is well under way with at least 40 projects in various stages of development. Under construction office product remains confined to the Suburbs at less than 200,000 square feet. Near term (late 2015) planned deliveries with announced completion dates of new office inventory will be located in the CBD, also totaling 200,000 square feet. Overall absorption has maintained a positive motion for almost four years. Largely attributed to Class A buildings, vacancy within this segment of the market has declined consistently for the past 3.25 years. Among Class B assets, a slower trend has decreased vacancy consistently for only the last 1.5 years. The pace of leasing activity has subsided since 2011. For those known transactions now under negotiation as of this writing, the volume of square footage is anticipated to increase leasing activity levels. However, with a large percentage comprised of renewals, relocations within existing submarkets and/or space downsizing, this will not translate into positive absorption.

- Roberta Steen
Senior Research Analyst, Miami

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Milwaukee

Economy

According to the Business Outlook Survey conducted by the Metropolitan Milwaukee Association of Commerce, MMAC expectations toward third quarter sales and profits improved, while employment optimism fell slightly from second quarter levels. For the second time in three quarters, the largest number of businesses surveyed see no change in future employment levels. Milwaukee's professional and business services activities continue to carry the office-occupying sectors; for July, 3,300 jobs were added, which is an increase of 2.8 percent. Meanwhile, unemployment in the Milwaukee MSA has declined since peaking at 8.9 percent in 2009 and in July was at 7.6 percent.

Conditions

Milwaukee's office is experiencing a gradual improvement in tenant demand as leasing velocity increased over the past year with users being more receptive to relocation than in the past four years. One example of this is the relocation of UMB Fund Services, who will be relocating to the executive building at Schlitz in the Downtown West submarket. Roughly 36.0 percent of the leases signed this quarter can be found within the Downtown West submarket. The CBD Market continues to see a shift in demographics where a newer generation prefers to be in an urban setting and that's coinciding with the national trend toward more collaborative space.

On the suburban side, the Brookfield and Waukesha / Pewaukee submarkets were less active compared to last quarter where these submarkets combined for 58.6 percent of all the suburban leases. For the third quarter, it is down to 23.8 percent of the all the suburban leases. A total of 480,663 square feet of transactions were inked throughout Milwaukee during the reporting period. For the first time in several years, discussion of new construction is being met with optimism rather than with caution. The new Ingrens Development for the building located at 833 West Michigan Street in the heart of downtown Milwaukee and now a new planned $450 million, 32-story tower by Northwestern Mutual Life Insurance Co., this building will be constructed on its existing downtown campus near Lake Michigan. When completed, Northwestern Mutual's curved glass tower will be the state's largest single-tenant office building.

Outlook

Wisconsin continues to lure companies across state lines because of favorable tax incentives and a positive political climate. Healthcare continues to be an area of growth not only in the state, but the Milwaukee area as well.

- Robb Russell
Senior Research Analyst, Milwaukee

Minneapolis

Economy

Year-over-year employment growth within the office-using sector was 4.4 percent, the highest annual percentage gain in the Minneapolis-St. Paul MSA in more than 12 years. The government sector led the region in annual employment growth, adding 15,100 jobs between July 2012 and July 2013 (prior to the current federal government shutdown). Professional and business services also contributed to the strong 12-month increase, adding more than 14,000 jobs during the same time frame. The regional unemployment rate currently sits at 4.9 percent, the second lowest unemployment rate among metro areas with at least one million people.

Conditions

We are currently tracking more than 100 active office requirements totaling 6.4 million square feet of space for users in the Twin Cities. The Minneapolis CBD and West submarket continue to receive the most interest from active users, followed by the Southwest. Year-to-date absorption has been subdued despite the increases in office-using employment as tenants continue to utilize space with increasing efficiency.

While continued strength is expected for select Trophy Class A properties in the Minneapolis CBD, West and Southwest submarkets, there are a number of active users exploring lower cost options in response to the pressing of rates in multiple Trophy properties. As a result, some notable deals in Class B properties are expected during the fourth quarter.

Outlook

The strong economic numbers will further translate into modest office demand moving forward as increases in employer payrolls are offset by the push for a reduced square footage per employee. That being said, expansions are occurring with some regularity among small and mid-size companies within select sectors such as IT and creative industries.

Large active users in the Minneapolis CBD currently have four options larger than 100,000 square feet. However, future relocations, downsizings and the conversion of existing buildings with alternative uses are expected to add additional big block options. Additionally, build-to-suit projects in the pipeline also have the potential to free up existing space in the coming years.

Additional trends to keep an eye on include the significant amount of multifamily development taking place in the Minneapolis CBD and the subsequent expected growth in the downtown population. Next year's opening of both Target Field Station, a new multimodal transit hub under construction on the edge of the Minneapolis CBD, and the METRO Green Line (Central Corridor) connecting the Minneapolis and St. Paul CBD's should have positive impacts on both office submarkets.

- Abel Balwierz
Senior Research Analyst, Minneapolis

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New Jersey

Economy

After adding new jobs during five out of the first six months of the year, the lingering effects of Hurricane Sandy resulted in the loss of 10,700 jobs in New Jersey during July. This was followed by an additional 1,500 jobs shed in August as gains in education and health services were offset by losses in the professional/business services and financial services sectors. The New Jersey unemployment rate declined to 8.5 percent in August compared to 9.7 percent one year ago, in the wake of 60,300 jobs being added in the state.

Conditions

The professional/business and financial services sectors have historically been drivers of demand for space in the office market. The lack of significant employment gains by these vital clusters has cast a shadow over the Northern and Central New Jersey office market, where limited demand is being countered by corporate restructurings and rightsizings. These forces have caused the overall vacancy rate to range near the 25.0 percent level for the past three years. After slipping 40 basis to 24.2 percent during the second quarter, the Northern and Central New Jersey overall office vacancy rate returned to 24.6 percent three months later.

Additional vacancies produced nearly 772,260 square feet of negative net absorption occurred during the third quarter, which effectively eroded the 735,600 square feet of positive net absorption witnessed in the second quarter. More than 759,660 square feet of this negative absorption was concentrated in the Northern New Jersey office market. With the exception of the Route 24 and Meadowlands markets, the remaining 10 Northern New Jersey submarkets reported negative quarterly absorption figures. The Northern New Jersey overall vacancy rate subsequently climbed 70 basis points from mid-2013 to 24.8 percent in the third quarter, while the Central New Jersey overall vacancy rate remained unchanged from mid-year at 24.5 percent.

Outlook

In mid-September, Governor Christie signed the highly anticipated New Jersey Economic Opportunity Act of 2013, which overhauls and streamlines the state's business incentives tools. The state's incentives programs have been used extensively over the past several years to stimulate economic development and job growth. The bill consolidates the five current programs into two: Grow New Jersey and the Economic Redevelopment and Growth Grant (ERGG). Grow NJ will become the state's primary economic incentives program, while the ERGG will offer incentives to developers. The new legislation is designed to allow more businesses to qualify for tax credits when they create or bring additional jobs to the Garden State.

- Steve Jenco
Vice President, Research,
New Jersey

New York

Economy

Even though profits have surged in recent quarters, Wall Street continues to control costs. The most common reason cited for weak employment growth in banking is the lack of new sources of revenue in the face of increased regulation, namely the full implementation of Dodd-Frank. Recently, analysts have cited declines in fixed-income trading revenue of 20 to 30 percent compared with a year ago. This late in the recovery, most large Manhattan banks are still long on space. Elsewhere, the New York economy is flourishing. Since the start of 2009, investors have poured more than $8 billion into New York-based start-ups. At its current run rate, 2013 will set a five-year high in venture capital deal and funding levels.

Conditions

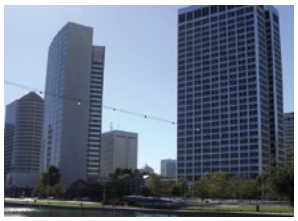
The Manhattan market is performing well at the edges. Value space, high value space, Midtown South and subsections of Downtown are in demand, while fully priced core Midtown Class A product is struggling. The Midtown Class A asking rent average has been flat for months—in the mid-$70s per square foot—yet the bulk of leasing activity is south of $60 per square foot or north of $80 per square foot—at the edges. Large Midtown transactions were down by 50 percent for the quarter; only four leases larger than 100,000 square feet were signed in the market compared with eight in the second quarter. The largest lease of the quarter was a sublease of approximately 250,000 square feet by Capital One at 299 Park Avenue. The number of top-tier transactions—which are defined as having starting rents greater than $100 per square foot—increased to 46 year-to-date from 28 in the same period of 2012. In Downtown, the Class A vacancy dropped to 15.5 percent from 16.6 percent last quarter as the result of strong leasing activity, including three of the top ten transactions of the quarter. Creative industries surged to 34.9 percent of all Downtown leasing as activity from advertising and technology firms accelerated. In Midtown South, Sony announced it will lease approximately 500,000 square feet at the top of 11 Madison Avenue. The company recently sold its iconic Midtown headquarters, which is expected to be converted to hotel or residential use.

Outlook

Several large leases are expected to close by the end of the year from a range of industries, including the flat legal and financial services sectors. Some of this activity will be consolidation or renewal, rather than growth. Strong interest remains in value space: Class A sublets, discounted base floors, peripheral avenue locations, Class B space, and Downtown. Midtown South continues to attract tenants from the creative industries that can still afford the increasingly expensive rents, while others are looking to more conventional buildings in Midtown and Downtown. Employment forecasts—including those for the vital financial services industry—are more bullish for 2015 and 2016. Since much of the new product in Midtown is expected to be completed beyond 2016, rents could begin to see significant increase.

- Tristan Ashby
Vice President, Research ,
New York City

Oakland - East Bay



Economy

The local economy stabilized with total unemployment down by 190 basis points year-over-year to 7.7 percent and the addition of 7,200 jobs during the same period. Bay Area median home prices rose 40.1 percent year-over-year. With a healthy housing market and steady overall employment growth, the Oakland-East Bay continues to see signs of recovery that are expected to persist moving into the future.

Conditions

Economic improvement in the region is contributing to more stable market conditions. Leasing transactions have been steady and should continue at current velocity through the end of the year. The Emeryville submarket has been most active in terms of touring and leasing transactions, and has become an option for priced-out San Francisco tenants. As a result, the Powell Street area is 90 percent leased; vacancies for Class A are tightening dramatically and landlords are being bullish by increasing rents. UCSF, Stanford and Art.com represent either new transactions or expansions for a total of 70,000 square feet in Emeryville.

Small tenants in Oakland have been more active in terms of touring and have been leasing portions of large blocks of space causing depletion in overall supply. The East Bay market has also seen large blocks of space dwindle as large corporate users secure space in the anticipation for additional company growth. Submarkets like Downtown Walnut Creek, San Ramon-Bishop Ranch and Pleasanton-North saw a decline in large blocks of space 50,000 square feet and larger.

Asking rates remain the highest in Oakland's CBD, with an overall average of $2.43 per square foot per month compared with $2.26 per square foot per month in the total East Bay's suburban market. Rents have gradually risen in nearly all submarkets and will likely continue on this trend as landlords gain additional market leverage in many submarkets in 2014.

Outlook

Local professional service and healthcare tenants will continue to move the local economy forward. In the most desirable submarkets, specifically Class A properties, rental rates are expected to increase and landlords will continue to gain leverage and offer fewer tenant concessions. With no projections of new supply and expectations for continued steady leasing activity, the vacancy rate will surely decline and drive additional rent growth for the next 12 to 18 months.

- Brandon Myers
Research Analyst,
Oakland - East Bay

Orange County

Economy

Positive job growth and a relatively low unemployment rate are two bright spots for the Orange County local economy. However, the rate at which jobs are being added is somewhat demoralizing when considering the county lost 206,800 jobs from peak to bottom in the downturn. Nearly four years into the recovery, just under half of these jobs have been recovered. Nonetheless, the market has recorded consistent job growth since 2010 and for the first time in the post-recession recovery, all major supersectors are in the black in terms of 12-month job growth. Financial services and construction currently lead job gains, while the overall unemployment rate holds steady at 6.2 percent.

Conditions

Three quarters into 2013, the Orange County office market is on its way to another positive year of net absorption and upward pressure on rental rates. Coupled with the current construction activity and an active sales environment, landlords have many reasons to feel optimistic about the road ahead. However, there are still lurking issues that could threaten the seemingly healthy state of the market.

One potential threat that could pose as a speed bump for the market is its exposure to the mortgage industry. Mortgage-lending firms, a staple of the Orange County economy, have thrived over the past two years thanks to low interest rates and a flurry of refinancing business. However, as interest rates climb, the faucet of refinancing activity is quickly closing. The likely result is a reduction in mortgage-lending payrolls that would then lead to leased office space returning to the market. The second potential issue that the market is facing is the hangover from the blend and extend transactions that were so common between 2009 and 2011. The trend has artificially delayed some natural lease rollover, which is likely to last through at least next year, subduing leasing activity.

Outlook

Despite the potential threats, there are several positive factors in play. Small tenants are becoming more active with each passing quarter and the amount of tenant expansions are mostly outweighing those who are downsizing. The positive net absorption that we have seen year-to-date is product of organic growth, meaning companies are leasing extra space based on need rather than just locking low rates based on future growth expectations. While shadow space is surely a present in some cases around the market, it does not appear to be as much of a concern to the market's recovery as it was in 2011 and 2012. Probably the best indicators of the market's health are the rising purchase prices in the various tiers of assets and the growing development pipeline. These will be key trends to keep an eye on into 2014 and 2015.

- Bryce Mordoff
Senior Research Analyst,
Orange County

Orlando

Economy

Not only has Orlando's unemployment rate dropped faster than the rest of Central Florida and the state of Florida as a whole over the past year, it also currently has the lowest rate. Declining 22.5 percent year-over-year, Orlando's unemployment rate is currently 6.9 percent compared to the rates of Tampa, Jacksonville, and the state of Florida at 7.3, 7.0, and 7.4 percent, respectively. The gains in employment have been due primarily to two labor sectors: education and health services along with leisure and hospitality. These two labor sectors combined have grown 2.8 percent over the past year and currently account for 32.7 percent of the total nonagricultural employment in the Orlando MSA. The office-using labor sectors have also fared well. Only one of the four office-using labor sectors, information, decreased their employment over the past year. As a whole, office-using labor sectors have increased their employment 1.3 percent year-over-year.

Conditions

Four out of the seven submarkets in Orlando saw both positive direct and total net absorption figures for the past quarter lead by the CBD and Altamonte capturing 0.9 percent and 1.2 percent of their stock, respectively. The four submarkets mentioned above are the CBD, Altamonte, Lake Mary and Maitland Center. Year-to-date, Lake Mary is leading the entire market with the largest amount of its stock captured at 4.0 percent. On a different note, it appears as though the time of declining rents in the Orlando MSA is finally over. Although year-over-year declines in rental rates still remain in both the suburbs and the CBD, the previous two quarters have shown an increase in rents pointing to the conclusion of the first quarter as the basement for rents in Orlando. Even though rents have appreciated over the past six months, rents remain suppressed below their pre-recession max by 14.7 percent and 11.5 percent for Class A and Class B product, respectively.

Outlook

The bad news that has been commonplace in Orlando for the past couple years appears to be over. Vacancy is below the five-year moving average in both classes of office product. Look for Class A vacancy to continue its decline as it has for the past six consecutive quarters. For the lower quality product, Class B vacancy is projected to rise as tenants display the flight-to-quality movement that is common in a post-recession era. As mentioned above, rents are expected to appreciate from here on out as demand has remained consistently strong, posting a positive four-quarter rolling total of net absorption for 10 out of the last 11 quarters. A concern that remains in Orlando is the low level of leasing activity that occurred during the third quarter. Expect leasing activity to increase as tenants try to secure leases before rental rates increase and concession packages decrease.

- Ryan Vaught
Research Analyst,
Central Florida

Philadelphia

Economy

The Philadelphia region continues to gain confidence in the economy led by growth in the education and health services sector. The "eds and meds" sector once again drove the region's job gains, adding 22,500 new jobs year-over-year. This accounted for more than half of the region's total employment gains in this period. Continued steady growth by the professional services and financial activities sectors followed, adding 8,600 and 3,500 jobs, respectively.

Conditions

Two large renewals totaling 1.1 million square feet in the Philadelphia CBD drove a significant increase in leasing activity this quarter, spurring year-over-year quarterly leasing gains by nearly a factor of three. Leasing decisions by mid-sized tenants in the market are further strengthening Trophy fundamentals, which saw annual rental rate growth of 4.0 percent. Expansions at and relocations to Three Logan Square and Two Commerce Square further underscored the CBD's strong quarterly activity. The continued widening of the Trophy-to-Class A rental rate gap and growing mid-sized tenant activity are positioning top tier Class A landlords to push rental rates.

After posting the highest level of positive absorption across submarkets last year, Plymouth Meeting / Blue Bell continues to lead the suburbs. Overall, quarterly suburban leasing activity decreased 50.0 percent, dropping from 987,725 square feet to a mere 495,743 square feet this quarter. However, this should return to normalized levels shortly. Despite less activity, a market shift emerged as five of the eleven relocations signed this quarter elected to cross, rather than relocate within, submarkets.

Outlook

In the CBD, despite moderate positive net absorption in Market Street West this quarter, leasing fundamentals are pointing to normalized absorption figures in 2014 as the CBD experienced its sixth consecutive quarter of upward trending net new demand. The continuation of expansionary requirements and inbound demand will solidify this trend. In the suburbs, building renovations continue to fill a growing need for Class A product as vacancy stands at 12.9 percent. New office construction has been limited to build-to-suit projects. As a result, well-capitalized owners have been and will continue renovating Class B properties with cosmetic enhancements, system retrofits and new amenities to cater to tenant demands for better space and efficiencies.

- Geoff Wright
Senior Research Analyst,
Philadelphia

- Sean Coghlan
Senior Research Analyst,
Philadelphia

Phoenix

Economy

The Phoenix economy has maintained its momentum despite looming near-term obstacles mainly related to recent Washington events such as sequestration, the shutdown and debt ceiling limit. Fortunately, year-over-year employment growth has remained stable at 2.5 percent, with 42,200 new jobs added in the last 12 months. This continues to outpace the West and U.S. The labor market is close to firing on all cylinders, as construction, leisure/ hospitality and professional services are seeing growth strong enough to offset weaknesses in the manufacturing and public sectors. The unemployment rate has most recently settled at 6.9 percent. The outlook for office-using employment remains bright, particularly in financial services. Minimal new supply coupled with persistent demand will keep Phoenix's residential real estate market on the right track. Although homebuilders are returning to the market, new construction is not keeping pace with population gains. SFR Investors are beginning to look elsewhere due to rising home prices, but new residents have stepped in to keep demand strong, outstripping supply. House price increases have slowed in recent months, but are still outpacing those of the U.S., with year-over-year gains nearing 23 percent.

Conditions

Office vacancy rates continue to fall and six consecutive quarters of positive net absorption indicate steady demand and development in check. Total vacancy fell 50 basis points this quarter as the market saw 385,361 square feet of positive net absorption. This improvement can be largely attributed to increased demand for back-office space. Large users such as USAA, GM, and Vanguard have each made major hiring announcements in 2013, and are filling their back offices. State Farm has also been adding plenty of new jobs and more recently has made a long-term commitment to Tempe with a $600 million investment in a new 2.1 million-square-foot office park.

The Camelback Corridor continues to be the strongest performing market so far this year with 269,405 square feet of positive net absorption recorded. Users are beginning to see incremental increases in rents within these popular submarkets and are doing what they can to take advantage of any last minute concessions. Large blocks of space across Class A product is dwindling, which is helping slowly shift leverage back into landlords' favor.

Outlook

Phoenix's recovery will be driven by sustained employment gains. Financial service and construction hiring will be large contributors as the economy expands and homebuilders continue to re-enter the market over the next few quarters. Longer term, favorable demographics, Phoenix's status as an inland trade hub and lower business costs compared to California will ensure that the metro area continues to outperform the U.S.

- Matt Kolano
Research Analyst, Phoenix

Pittsburgh

Economy

Total nonfarm employment in Pittsburgh sits at 1,168,800, down slightly from the all-time high reached in June of 1,185,500 jobs. Over just the last year, the region has added 15,500 jobs, a 134-basis-point increase. Meanwhile, the unemployment decreased to 7.0 percent, down 70 basis points year-over-year. The office using employment sectors continue their streak of strong performance, posting cumulative net gains for 42 consecutive months. These gains have been mostly driven by the financial activates and professional and business services sectors.

Conditions

Pittsburgh has received significant investor interest over the last two years, the result of the region's high occupancy rate and landlord-favorable conditions. Over the last 24 months, the region has recorded more than a dozen office sales transactions north of the $100 per square foot threshold. That trend continued in the third quarter with Starwood Capital Group's purchase of the 27-story Liberty Center, a mixed-use hotel and office complex downtown. Starwood Capital Group purchased the 526,000-square-foot office tower for $59.7 million ($114 per square foot) and the 616-room Weston hotel for $75.3 million ($122 thousand per room). The Westin is Pittsburgh's second largest hotel. The office portion of the complex is anchored by Federated Investors, which occupies approximately 250,000 square feet. Federated Investors recently renewed their lease in the tower, committing through the end of 2021.

Construction activity also remains heightened throughout the region with over 1.7 million square feet under construction. The largest project of which is the Tower at PNC Plaza. The 33-story office tower will be approximately 800,000 square feet and has a construction budget of approximately $400.0 million. Construction began in the spring of 2012 and completion is scheduled for summer 2015. Soon to be joining the construction scene downtown will be the The Gardens at Market Square. The project's developer, Millcraft Investments, recently held a kickoff event for the project. The Gardens is expected to combine a 197-room Hilton Garden Inn with a 129,000-square-foot office building into a larger mixed-use development. The project is also expected to include 14,000 square feet of retail and restaurant space on the first and second floors, and a 330-car parking garage. The total project cost is more than $100 million.

Outlook

Touring activity and leasing volumes are expected to hold steady through the end of the year as a number of tenants are currently 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 tick up slightly through the end of the year and concessions to remain at historic lows.

- Andrew Batson
Senior Research Analyst, Great Lakes

Portland

Economy

Portland's economic recovery continues its slow and steady progress. Unemployment is down for the fifth consecutive month and down 90 basis points year-over-year, now standing at 7.3 percent. The region experienced a year-over-year employment gain of 28,700 jobs, its largest since before the recession began. Portland's labor market expanded by 2.8 percent in the past 12 months, well ahead of the U.S. average of 1.6 percent. Professional and business services put in a robust performance with year-over-year job growth of 5.8 percent driving demand in the office market, both the CBD and the suburbs. However, government cutbacks continue, particularly in the local and state government sectors, led to a year-over-year loss in the government sector of 1,500 jobs. These cutbacks will likely materialize as occupancy losses for the office market in the coming months and quarters as agencies downsize.

Conditions

The repercussions of the federal stimulus-funded project are finally materializing for the CBD, as federal tenants re-occupy the Edith Green/ Wendell Wyatt Federal Building. These expected relocations have put a few rare large blocks of space on the market, pushing vacancy up for Class A to 7.8 percent. The largest contributor this quarter was the 150,000+ square feet vacated by the Bureau of Land Management at Block 300. With the exception of these movements, the CBD continues to show solid leasing activity with transactions dominated by high-technology tenants. Class B buildings have seen strong interest as well, pushing vacancy down to 8.1, its lowest level in 10 years. Despite the bump up in Class A vacancy, rental rates in the CBD, across all classes, are rising rapidly and concessions are slowly moving away from the tenant.

Portland's westside suburbs continue to dominate suburban leasing activity with westside net absorption accounting for 69 percent of the market total. While demand from tenants in the market is still strongly dominated by the CBD, suburban tenant movement has picked up steam as economic improvement persists. Rents are starting to inch up in Kruse Way, 217 Corridor/Beaverton and Sunset Corridor as concessions retreat very slowly.

Outlook

The high-technology industry remains a significant driver of the Portland office market. This demand is fueling a development trend of adaptive re-use and smaller in-fill projects in the central city area, as owners try to capture these creative users. JLL is currently tracking 12 re-development projects in the central city, as developers and users get resourceful in trying to satisfy the need for creative space downtown. These projects are also driving up asking rents in all classes. Suburban tenants will face a shrinking supply of options in the coming quarters as market demand returns to pre-recession levels. Vacancy will begin to recover quickly and large blocks of space (over 50,000 square feet) will be in short supply.

- Patricia Raicht
Vice President, Research, Portland

Raleigh / Durham

Economy

The unemployment rate in the Triangle dropped in August, marking its lowest rate in five years. After Asheville, Raleigh-Cary and Durham-Chapel Hill MSA recorded the lowest unemployment rate in the state at 6.8 percent and 6.5 percent, respectively. HCL America, Met Life and OxyContin were some of the firms that announced their plans of hiring new employees this quarter in the triangle. Future increases in high-tech employment are expected to help the Triangle grow as we near the final quarter of the year. For the overall state, unemployment rate was at 8.3 percent in August, which was a 0.8 percent decrease from July's rate of 9.1 percent and a decline of 1.4 percent compared to the previous year.

Conditions

Significant large-sized users have signed new leases or extended existing leases in 2013, which we expect to contribute to positive net absorption entering the final quarter of 2013. Landlords are more confident now, which has led to multiple announcements of new office projects that are expected to break ground soon.

Vacancy dropped by 70 basis points this quarter as compared to the second. The majority of the leasing activity and net absorption remains concentrated in the Class A segment of the market. Flight-to-quality continues to drive the market toward Class A spaces. As a result, vacancy and rental rates in Class B spaces have shown little improvement. With five consecutive quarters of positive net absorption, the Raleigh / Durham office market continues to move toward a strong path of recovery.

From a space perspective, firms are working to identify more efficient uses, including the use of more community space and less private office space. Other trends include longer lease terms, particularly for relocations, as a result of the high upfront costs and time consumption associated with moving. Small- to mid-sized users are often taking advantage of the current leasing environment before landlords push rental rates in the local office market.

Outlook

The overall market continues to make gains with the return of sustainable organic tenant growth, which bodes well for overall office market fundamentals. Property sale prices have stabilized and we expect to see an increase in the number of assets being listed for sale. As market conditions tighten in the coming quarters and years, the metro area can expect to see rents rise and remain above the $20.00 per square foot mark and vacancy continue to slide downward.

-Mehtab Randhawa
Research Analyst, Carolinas

Richmond

Economy

Richmond's employment growth slowed, but remained positive into the third quarter of 2013 with a mere 0.1 percent growth rate over the trailing 12 months. Professional and business services produced six months of consecutive job losses after achieving strong gains in 2011 and 2012. Out of the office-using sectors, Richmond's financial services industry maintained positive growth, but showed signs of slowing, achieving an average growth rate of 2.9 percent year to date compared to the 2012 average growth rate of 6.7 percent during the same time frame.

Conditions

Renewals and relocations drove leasing activity in the third quarter, but overall volume was inflated by Troutman Sander's 104,000-square-foot rightsize in the CBD. Leasing from Downtown's smaller law firms gained momentum, but ranged from 5,000-to 8,000-square-foot renewals. New deal activity achieved the greatest volumes in the Northwest's Class A inventory with several mid-size takedowns from Acision and Appendix R Solutions in the Innsbrook submarket, leasing a combined 31,222 square feet. Overall, vacancy declined in the Northwest by roughly 1.6 percent since the third quarter of 2012, nearly three times the Richmond market as a whole (0.6 percent). Tenants seeking space were drawn to limited sublease options and high-vacancy office buildings where landlords offered substantial concessions. As an example, Deep Run I (9950 Mayland Drive) placed nearly 85,000 square feet of sublet space on the market this year. In three quarters, 34,000 square feet were leased with an additional 50,000 square feet under negotiations—all were new deals. In the Southwest, competition for tenants remained strong. Travelers Insurance's planned relocation from Arboretum III (300 Arboretum Place) opened a 101,000-square-foot block in the Midlothian Corridor, the only block of Class A space in the southwest quadrant larger than 50,000 square feet. Lack of leasing velocity in this submarket cluster left landlords offering contract rates 23.0 percent below asking and paired with generous concession packages to retain or attract mid-size tenants.

Outlook

As corporate America achieves more efficient footprints, occupancy growth in the Richmond market will slow. While a majority of tenants try to reduce costs, many industries have demonstrated a need for space, stressing expansion rights rather than leasing additional space in anticipation of growth. With rock-bottom rental rates in the past, tenants will push for early renewals to lock in lower space costs, particularly the Innsbrook submarket. While anticipated vacancies in the CBD will maintain a tenant-favorable playing field for the next 12 to 14 months, a level playing field will emerge by 2015

- Geoff Thomas
Research Analyst, Richmond

Sacramento

Economy

Annual nonfarm job growth has started to slow across California in recent months, and Sacramento is no exception. The four-county region added a mere 2,600 jobs to nonfarm payrolls – a gain of 0.3 percent – over the 12-month period ending in August. While job growth is maintaining positive momentum, the current rate of payroll expansion is down from the 2.3 percent job growth the region enjoyed in August of 2012. Three out of the five largest private employment sectors added jobs on an annual basis, while professional & business services and financial activities both recorded net losses. That said, professional & business services employment still remains above 2007 levels and the 10-year historical average of 106,749 jobs. Total employment continues to hold at 2005 levels while the unemployment rate sits at 8.5 percent.

Conditions

With yet another positive quarter in the bag, suburban submarkets forged ahead adding an additional ±225,000 square feet to total occupancy. The fifth consecutive quarter of positive growth brought year-to-date net absorption to over 1.3 million square feet. Key office-using industries – including professional and financial services, healthcare, insurance and state and local government – were the primary contributors to overall growth and helped push direct vacancy to 19.1 percent. Although suburban submarkets were most active, with vacancy rates declining 70 basis points to 19.3 percent, the CBD did experience positive demand, helping push vacancy rates down to 18.1 percent.

As underlying employment fundamentals continue to improve, local and regional businesses are exerting signs of increased confidence from 12 months ago, which is translating into increased leasing activity from this tenant group. Meanwhile, corporate leasing activity has slowed from previous quarters, in part due to real estate decisions inked by these firms over the past several quarters. As the primary driver for large blocks of contiguous Class A office space, corporates have played their hands and left only a handful of available alternatives for prospective tenants to choose from. To date, there are only 12 available Class A options able to accommodate a user seeking 50,000 square feet or greater with the bulk of excess availability comprised of commodity Class B spaces.

Outlook

The availability of commodity office space in the suburban submarkets will aid small and mid-sized companies as they look to grow and expand their businesses. Furthermore, scarcity of large block availabilities will yield higher contract rents compared to smaller commodity space that is in greater supply. With 8.5 million square feet vacant and nearly 1,400 of those available spaces less than 5,000 square feet, the timeline of recovery will be contingent on substantial growth from smaller regional tenants as the economy continues to improve.

- Elliot Williams
Research Analyst, Sacramento

San Diego

Economy

The unemployment rate in San Diego County was 7.4 percent in August, down from the quarter's high of 7.8 percent in July. Six employment sectors, including office-using professional and business services (PBS) saw notable employment gains; PBS saw a year-over employment increase totaling 4,400 jobs. With healthcare uncertainty and a government shutdown clouding future plans, some tenants are staying on the sidelines until more clarity emerges.

Conditions

San Diego's office market saw leasing activity increase slightly this quarter, including one of the largest deals of the year. SEMPRA Energy announced that it signed a 25-year lease with Cisterra Development for a 300,000 SF build-to-suit in Downtown's East Village, which is set to deliver in late 2015.
Despite this sizable lease, the rest of the market's fundamentals remained relatively flat. Thanks to a few large givebacks, vacancy ticked up 20 basis points this quarter to 13.9 percent direct vacancy. Rents countywide are hovering around $2.17 per square foot full service gross per month, with marginal increases in Class A and B projects year-to-date. Without a definitive course of action regarding political and economic policies, industries like defense and financial services in San Diego will continue to see leasing activity slow at best, and at worst, contract.

Submarkets like UTC and Mission Valley have outperformed the rest of the market this quarter with UTC seeing the County's lowest direct vacancy rate at 7.1 percent; Class A space in these markets is even tighter. Mission Valley, thanks in part to the move-in of Liberty Mutual at Pacific Center, saw one of the biggest occupancy gains at 174,339 SF total net absorption, year-to-date. These vacancy decreases have in turn pushed asking rents.

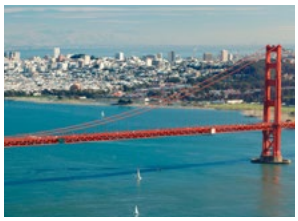
Outlook

Though vacancy has dipped into single digits in the most popular submarkets, the market will need to see more sustained leasing activity and widespread vacancy decreases before significant rental growth will occur. Though current rental rates are far from peak levels, the success of top-quality Class A spaces - especially in popular submarkets like UTC, Mission Valley, and Del Mar Heights - have helped to buoy the market somewhat. If many of the current large tenants in the market execute deals prior to year-end, San Diego may begin to experience more systemic rent increases in the near term.

While the most noteworthy build-to-suits like LPL Financial and SEMPRA Energy are great news to developers and the construction industry, an important question remains: how quickly will these spaces be backfilled? LPL will be vacating a host of spaces in Eastgate and SEMPRA will be vacating an entire high-rise. The quick re-tenanting of these projects will be essential to maintain the nascent recovery of the office market.

- Eli Gilbert
Research Manager,
San Diego & Phoenix

San Francisco



Economy

The technology sector continues to drive the local economy, albeit at a more measured pace, with expansion of cloud, social media, and e-commerce sectors leading the way. San Francisco County added 12,700 jobs year-over-year, while unemployment fell to 5.6 percent -- well below the national average of 7.3 percent. Strong job growth paired with numerous commercial, residential and civic projects under way, as well as planned future expansions on behalf of technology tenants, will contribute further to economic growth and development within the real estate sector.

Conditions

Although the first half of 2013 was off to a sluggish start with leasing activity down 40.0 percent, the third quarter revealed a significant uptick in activity with two deals completed over 100,000 square feet at the close of the quarter. While leasing activity remains down 7.0 percent year-over-year, it's a marked improvement from the first half of the year. Total net absorption posted solid gains this quarter, coming in at just over 345,000 square feet, bringing total net absorption year-to-date to 816,880 square feet.

Two separate speculative developments broke ground on the heels of strengthening market fundamentals and a significant pipeline of tenant demand. Each development project will deliver four 100,000-square-foot blocks of contiguous space. With over 6.5 million square feet of active tenant requirements and 15 tenants in the market for over 100,000 square feet, leasing activity is expected to pick up well into the fourth quarter. Additionally, as various large tenants in the city face pending lease expirations, many are beginning to pursue options early as market rents continue to rise.

Favorable market conditions not only led to an uptick of development starts this quarter, but also to a flood of assets to the investments sales market. As landlords look to capture value on assets purchased in the last cycle, potential investors look to capitalize on tenant rollover and long-term growth projections, as market rents are now significantly higher than what existing tenants are paying. The fact that landlords view potential vacancy as an opportunity to capture market rents as opposed to a risk of exposure only speaks to their confidence in the market to continue at the current pace.

Outlook

With leasing activity expected to pick up through the end of the year and into 2014, as well as a steady pipeline of absorption on behalf of company expansions such as Yelp, Illumina, Uber and Cisco Systems, vacancy rates will continue to decline and further tighten market fundamentals. However, new developments slated to be completed by the end of the year will bring new supply options to tenants throughout the marketplace.

- Julia Georgules
Research Manager,
San Francisco

San Francisco Peninsula

Economy

The Mid-Peninsula continues to experience positive job growth thanks to a rapidly expanding technology sector. San Mateo County's unemployment rate has been on a consistent downward trend; between the months of July and August unemployment slid by 40 basis points to 5.3 percent, well below the state average of 8.8 percent. The technology sector's robust growth has helped to promote additional demand for housing as more and more people desire to locate to the Mid-Peninsula. Additionally, cities like Redwood City are looking to revitalize the area along El Camino through redevelopment in order to build vibrant downtown centers that will promote economic growth by attracting companies that want to locate near bustling retail hubs.

Conditions

The leasing environment continued on its overall positive trend. The significant amount of negative net absorption this quarter was caused by Sony's departure from Foster City. While a majority of the transactions still fall within the 10,000- to 35,000-square-foot range, the demand for larger blocks of space has increased. Rocketfuel's recent deal in Redwood City and GoPro's expansion in San Mateo shows that there are still tenants in the market searching for more than 75,000 square feet. The limited supply of Class A space options larger than 10,000 square feet in Palo Alto is pushing touring activity north toward Menlo Park and Redwood City. This additional demand has fueled rent growth for premium Class A space, while market conditions in core areas like South County and the 92 Corridor have tightened considerably over the past 12 months. Although there has been a rise in the number of available subleases, demand for this type of space has been high, as shorter terms and lower asking rents are an attractive option for young startups that have yet to prove themselves financially, but are looking for expansion space to accommodate future growth.

Hunter Storm's 900 Crossings development in Downtown Redwood City could break ground as early as Q4 2013, and could be the catalyst for more development. Additionally, Jay Paul recently outlined his plans for the former Malibu Grand Prix site in Redwood City. The 945,600-square-foot Class A campus is currently in the entitlement process. Once a development agreement is reached, it is likely that the project will break ground on a speculative basis.

Outlook

The South County and 92 Corridor are expected to tighten farther given current levels of demand; however, sublease availabilities in those markets could begin to decline as tenants look for some rent relief. While overall conditions continue to favor landlords, activity in softer submarkets like the North County is expected to remain flat given its proximity to the San Francisco market.

- Christan Basconcillo
Senior Research Analyst, San Francisco Peninsula

Seattle-Bellevue

Economy

The most recent employment forecast from the Puget Sound Economic Forecaster calls for employment growth of 2.8 percent in 2013, substantially higher than the 1.6 percent expected nationwide. Metro area job growth is projected to remain impressive at 2.3 percent in 2014. Current figures show that unemployment in August 2013 stood at 7.0 percent statewide and 5.2 percent in the Seattle-Bellevue-Everett area. Over the past 12 months, a total of 66,800 jobs have been added, mostly in the leisure and hospitality, retail, construction, education and health services, and professional and business services industries.

Conditions

Puget Sound remains a top 10 market nationally for institutional grade investments. Nine major properties changed hands during the third quarter with a sales volume of greater than $700 million. A number of significant properties have come to market in the past quarter and strong interest in these assets pushed prices into record territory. The third quarter was highlighted by the sale of 202 Westlake. The allure of acquiring the newly constructed Class A Lake Union asset anchored by Amazon on a 15-year lease, led GLL Real Estate Partners to pay a market record $745 per square foot, or $97.4 million, to Spear Street Capital. In addition, Spear Street Capital sold a three property portfolio, including 505 First & 83 King, Metropolitan Park North and Northview Corporate Center, to Hudson Pacific Properties for $379.8 million, or a blended $443 per square foot. The average transaction price of the nine properties that traded in the third quarter was an impressive $424 per square foot.

Market wide net absorption was very positive in the third quarter, with more than 630,000 square feet of tenant demand, pushing vacancy down, with the current rate for Class A and B office now standing at 12.7 percent. The CBDs performed particularly well this quarter, as they combined to account for more than 65.0 percent of the total absorption in the market. Strong leasing activity in Bellevue CBD has driven vacancy to below 8.0 percent with Class A vacancy down to 6.2 percent. Seattle CBD experienced more than 370,000 square feet of positive absorption, much of which occurred in the previously underperforming southern portion of the submarket. Low vacancy and strong tenant demand in the downtown areas of Seattle and Bellevue continues to drive significant development activity.

Outlook

The market continues to make incremental gains with the return of more sustainable organic tenant growth, which bodes well for overall office market fundamentals. Marketwide average asking rents are inching up and larger increases continue to be observed in well-leased buildings and the tightest submarkets. There are more than 200 firms actively seeking space in the Seattle and Bellevue markets representing as much as 5.4 million square feet of potential activity, including over 1.9 million square feet on the Eastside.

- Patricia Raicht
Vice President, Research, Portland

Silicon Valley

Economy

The technology sector continues its strong performance in Silicon Valley, leading to job creation that has helped fueled a significant comeback since the last recession. The Valley's unemployment rate slid to 6.7 percent in August from 7.2 percent in July as tech firms are still fiercely competing among one another for the best and brightest talent. VC firms have also become more involved in the recruitment process by establishing "design fellows" to help find internships for young design talent within their portfolio companies. The trend away from product functionality toward aesthetics reflects the venture capital community's involvement in nurturing the next generation of design entrepreneurs that could potentially lead to the growth of more young, successful tech startups around the Bay Area.

Conditions

The signing of multiple large transactions in Silicon Valley has sparked another wave of market buzz leaving many to wonder when leasing velocity in Silicon Valley will ever slow down. Violin Memory's deal on Great America Parkway will finally allow Samsung to move forward with the 385,000-square-foot redevelopment of Violin's current location on Clyde. Meanwhile there are rumors that Akamai is currently in negotiations to lease 60,000 square feet of space at Menlo Equities' 3333 Scott Boulevard project as a part of their relocation out of San Mateo. North San Jose has yet to see any groundbreaking deals given its heavy R&D base; however, the Orchard Parkway corridor is undergoing a significant transformation, as there is approximately 900,000 square feet of R&D rehabilitation projects currently under way. Landlords hope that building upgrades will attract office users to the area to spur leasing activity.

From a capital markets perspective, investors are still showing great interest in prime Silicon Valley assets. Properties in Palo Alto and Mountain View continue to sell at record prices, while developers like the Irvine Company have made strategic acquisitions. Buyers are still taking advantage of the favorable lending environment, looking for well-placed assets. Demand is expected to remain on this positive trend throughout the rest of the year given rent growth and current leasing activity.

Outlook

With several large-block tenant requirements in the demand pipeline, additional speculative construction could increase given that quality supply larger than 50,000 square feet has been declining rapidly. Google's recent leasing spree of approximately 900,000 square feet of office and R&D product between Mountain View and Sunnyvale will likely further boost landlord sentiment in the market, and it is only a matter of time until markets like North San Jose will begin to see the overspill of tenant activity from core surrounding submarkets. With the momentum in the technology industry in high gear, it appears that leasing velocity in the Valley will maintain its robust pace through the end of the year and well into 2014.

- Christan Basconcillo
Senior Research Analyst,
San Francisco Peninsula

St. Louis

Economy

Metro unemployment increased to 7.9 percent in the month of July, the highest level since March 2013. Still, that number is 20 basis points below the same period last year. For the second consecutive month, financial actives and professional and business services showed year-over-year gains in employment. The most recent Federal Reserve Burgundy Book for the St. Louis Zone shows signs of increased hiring during the remainder of 2013. According to the report, "during the next three months: 37 percent of business contacts expect to increase payrolls, while less than 11 percent expect to reduce payrolls." The local housing market is showing signs of improvement. In St. Louis County and in the city the average sale price has posted year-over-year gains in 12 of the past 15 months with August up 16.9 percent versus the prior year.

Conditions

While vacancy regressed slightly in the third quarter, the metro's 17.5 percent vacancy rate is still 20 basis points better than the same period last year. Leasing activity continued is strong pace as 2013 leasing activity has already exceeded all of 2012. Expansions during the last three quarters are limiting high quality Class A space larger than 50,000 square feet, causing some pockets of the metro to shift to landlord-favorable conditions faster than previously expected. Despite several large leases being completed, the number of tenants in the market has remained steady from the previous quarter and those looking for more than 25,000 square feet increased slightly. Sublease space increased by 108,000 square feet in suburbs, taking away occupancy gains in direct space. Sales activity picked up after only one sizable sale last quarter; recent buyers have been a mix of local and out-of-town investors. Several portfolios remain on the market and could trade before the end of 2013.

Outlook

Over the next two quarters several large expansion leases will commence in the suburbs that will help to tighten fundamentals. However, in the CBD, AT&T announced a plan to downsize its office footprint by a significant amount. The telecommunication company will be vacating its 1,200,000-square-foot building on Pine Street by 2015 and consolidating into one of its buildings next door and another in West St. Louis County. No jobs are being lost in the move; AT&T has cited the increasing trend of its workers telecommuting instead of coming to the office. In total, 4,500 people are employed downtown by AT&T. St. Louis had been the corporate headquarters of AT&T until 1992 when the company moved to San Antonio.

- Blaise Tomazic
Research Manager,
St. Louis

Tampa

Economy

Although the Tampa market hit a speed-bump this summer due to a decline in nonfarm payrolls and unemployment rate compared to the previous quarter, this is historically typical and does not raise concern for the overall recovery from the recession. The unemployment rate in Tampa has decreased 21.5 percent, year-over-year to 7.3 percent and remains below Florida's overall unemployment rate of 7.4 percent for the sixth consecutive month.

Conditions

The I-75/I-4 corridor located east of downtown Tampa continued its 2013 success capturing 4.1 percent of its total stock thus far through three quarters. Moreover, the submarket posted its sixth straight quarter of positive total net absorption supporting the second highest four-quarter rolling total of total net absorption since the third quarter of 2006. The high demand has brought the direct vacancy rate down to 20.8 percent, a 15.1 percent year-over-year decrease.

The success was not only found in East Tampa. Four out of the seven submarkets in Tampa posted positive direct and total net absorption. The submarkets were St. Petersburg CBD, the I-75/I-4 Corridor, Gateway/Bayside and Pinellas Outlying. Looking at the market in its entirety, the direct vacancy rate is down to 18.7 percent, a 2.8 percent quarter-over-quarter decrease. Currently, the vacancy rate remains below the five-year moving average by 1.7 percent, nominally, but elevated above the 10-year moving average by 1.3 percent, nominally. Leases executed in the third quarter were of the typical suspects with healthcare firms signing three out of the five largest leases. Not only are these healthcare firms signing large leases that are supporting the real estate industry, they are creating thousands of jobs in the Tampa area.

Outlook

Over the past 10 years, the fourth quarter has averaged the highest level of total net absorption. Barring that this trend holds true for 2013, which we expect it will, the Tampa MSA will capture over a half a million square feet, the second highest yearly total since 2006. Supporting this prediction for a strong fourth quarter is the growth in office-using employment. In Tampa, the largest office-using labor sector is professional and business services (PBS) which accounts for 43.3 percent of the total office-using employment. PBS has grown 5.6 percent year-over-year. Furthermore, historically over the past 10 years, PBS employment has grown 0.74 percent in the fourth quarter. We expect the 2013 fourth quarter to exceed 0.74 percent due to the first three quarters this year all exceeding their historical averages.

- Ryan Vaught
Research Analyst,
Central Florida

Washington, DC

Economy

The durability of the Metro DC economy was apparent in the third quarter of 2013, as job growth and low unemployment persisted despite political gridlock on Capitol Hill. As lawmakers battled over the debt ceiling, sequestration, implementation of the Affordable Care Act and a variety of other key policy issues, the economy managed to largely shrug off the effects of prolonged uncertainty. Growth of the healthcare, education and financial services industries provided some bright spots to the market. Year-over-year employment growth of 33,400 new jobs extended the region's impressive streak of gains, but the concentration of new positions in non-office-occupying sectors, and general stagnancy in the professional and business services segment, tempered overall tenant demand in the office market.

Conditions

A continued drive to efficiency and moves by tenants to consolidate and downsize real estate footprints presented headwinds to the office market. Below-normal levels of tenant demand impacted leasing activity throughout the region – particularly the suburbs – as a variety of groups delayed real estate in light of unclear federal budgets and regulatory uncertainty. Overall leasing velocity and active space requirements fell as tenants adopted innovative space reduction strategies geared around telecommuting, hoteling and open floor plans.

While the federal government continued to operate under a continuing resolution (CR), agencies and contractors generally opted for short-term leases and most often elected to renew rather than commit resources to moving and building out new space. The exception to the rule were two high-profile federal agencies that signed leases during the middle part of the year: the U.S. Fish & Wildlife Service and National Science Foundation, both of which executed new leases that the agencies expect will save them millions of dollars over the term of their leases. A variety of law firms in downtown Washington, DC also seized upon favorable market conditions and inked letters of intent at new or recently renovated buildings.

Outlook

Although market fundamentals have shown few signs of distress thus far, leasing activity is expected to remain subdued in the months ahead as tenants seek political clarity and await the full impact of sequestration. A market rebound is likely once lawmakers are able to compromise on the policy issues that remain unresolved. A pullback in new construction, and surge in lease expirations over the years ahead, will likely rebalance the supply-demand paradigm in approximately 24 months, leaving tenants with a limited window to act before the highest quality buildings and most appealing lease terms begin to disappear from the market.

- Scott Homa
Vice President, Research,
Washington, DC

Westchester County

Economy

The Westchester County economy did not show any marked change during the third quarter. The lack of progress hinges upon a nonexistent surge in job growth. The 12-month growth rate has failed to exceed 2.0 percent, virtually unchanged at 1.7 percent during the year through September compared with 1.8 percent year-over-year growth at the end of the second quarter. Employment in office-using sectors, more impactful on the local office market, showed a more significant retraction in year-over-year growth. The growth rate at the end of the third quarter was 0.7 percent compared with 1.3 percent last quarter. High-tech employment, typically a boon for the local economy also pulled back, actually declining by 0.3 percent in the last 12 months.

Conditions

The weak labor market continues to curb a turnaround in the office market. The overall vacancy rate was flat at 18.7 percent and rents grew 0.6 percent during the third quarter. More positively, there is sustained strength in select submarkets along the I-287 Corridor. The I-287 East Corridor is not a surprise as a major player in third quarter activity, but the I-287 West Corridor also emerged as a strong location preference by area businesses. The second largest lease closed in the third quarter was Knighthead at 555 Taxter Road in the I-287 West Corridor. Of the remaining top transactions, half were executed in the I-287 East Corridor. The steady leasing allowed positive direct absorption along the Corridor during the second quarter, and vacancy rates to stay stable to descending. Rents recorded a stronger rebound reflecting some of the higher quality spaces available, particularly in the I-287 East Corridor. The average Class A asking rent accelerated to $27.85 per square foot during the quarter, up from $27.26 per square foot three months earlier. The White Plains CBD/Railroad submarket showed traction after struggling to post positive change in recent quarters, and posted the highest asking rent in Westchester. The vacancy rate tightened to 24.0 percent from 24.4 percent, fueling a 4.2 percent increase in the Class A average asking rent to $28.49 per square foot, as space at 44 S Broadway was absorbed at the end of the previous quarter.

Outlook

As long as the cultivation of Westchester as a bio tech and life science corridor continues, there will be opportunity for the market to successfully anchor itself. The planned North 60 will be a crucial step in solidifying this mission. The project encompasses 60 acres of biotech development including New York Medical College's $12.6 million biotechnology incubator and Fareri Associates' $500.0 million, 2.0 million-square-foot biotech and medical park.

- Erin Patterson
Research Manager,
Fairfield County

West Palm Beach

Economy

Despite a month-over-month 30 basis point dip, Palm Beach County's unemployment rate is slightly elevated – above both the state and national level. In August, the county's unemployment rate fell to 7.5 percent after two months on the rise. Although still high, it remains well below the 9.4 percent rate experienced this time last year. The decline has been aided by two factors: a slight dip in labor force participation combined with increased payrolls. Payrolls increased only 0.1 percent, while labor force participation declined by 0.2 percent, similar to the nationwide trend; however, both payrolls and labor force participation are well above August 2012 levels.

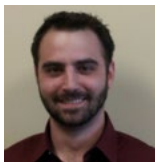
Conditions

For the second quarter in a row, the Palm Beach office market experienced positive absorption. Although the majority of activity among tenants continues to be lateral moves throughout the County, tenant expansions, new tenants to the market (though still limited), and tenants upgrading space from mixed-used properties/ small office product has allowed the County to absorb 0.7 percent of total inventory so far this year, or a total of just over 149,000 square feet. Much of the absorption occurred in the northern portion of the County. Over the course of 2013 so far, the market has been seeing more tenants touring and executing leases in West Palm Beach, with tenants moving from outlying suburban areas and even some tenants moving from Boca Raton north to the CBD.

So far this year West Palm Beach has absorbed over 65,500 square feet (1.1 percent of stock), slightly below the 2012 pace through three quarters. In comparison, Boca Raton's three submarkets have absorbed only 24,500 square feet (0.2 percent of stock) in aggregate. Countywide absorption gains have resulted in vacancy being at its lowest post-recession level of 22.1 percent. While this represents only a slight decline since year-end 2012, total vacancy is 370 basis points below the historic peak experienced in 2010.

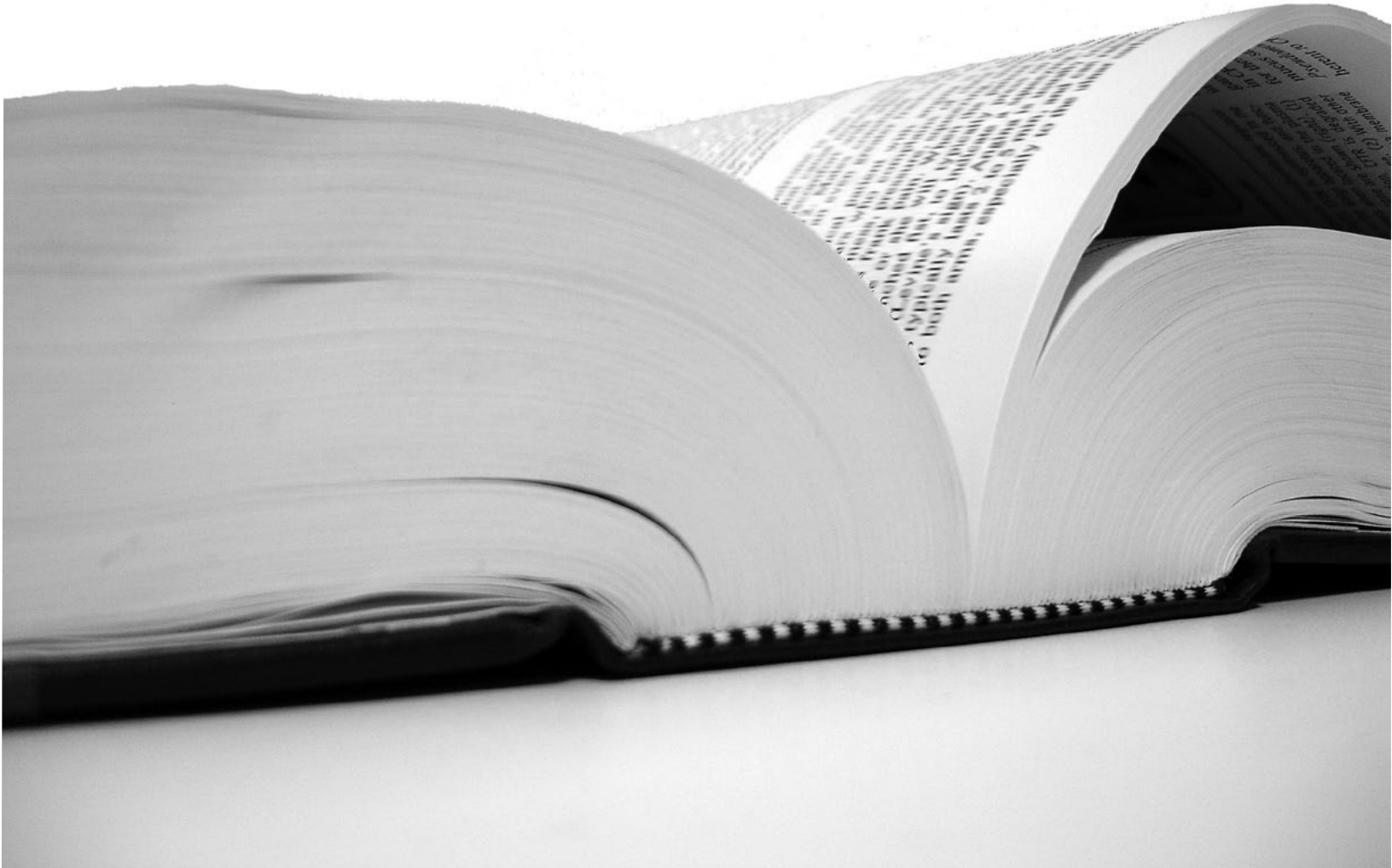
Outlook

The slow tightening should continue for Palm Beach County, as there are reportedly more new tenants circling the market and executing leases, which will result in true absorption gains. The increased interest from new and existing tenants in the CBD should benefit the overall office market but question marks still remain for Boca Raton. We are closely monitoring the Office Depot/OfficeMax merger, which could dramatically change the office market landscape in the southern portion of the county, principally Boca Raton North, if the company decides to relocate or downsize from their 600,000-square-foot space.



- Marc Miller
Research Analyst,
Fort Lauderdale

Appendix



United States employment statistics

MSA	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 (July 2013)	Unemployment (July 2012)	12-month unemployment change (bp)
Atlanta	73.7	3.1%	30.1	4.6%	8.6%	9.3%	-70
Austin	27.0	3.3%	9.0	4.7%	5.6%	6.3%	-70
Baltimore	20.2	1.5%	10.3	3.4%	7.5%	7.8%	-30
Boston	45.3	1.8%	18.8	2.8%	6.6%	6.5%	10
Charlotte	18.6	2.2%	0.9	0.4%	9.1%	10.2%	-110
Chicago	66.6	1.5%	41.7	3.7%	9.6%	9.4%	20
Cincinnati	13.0	1.3%	9.8	4.1%	7.1%	7.4%	30
Cleveland	-9.4	-0.9%	-3.9	-1.7%	7.2%	7.2%	0
Columbus	14.7	1.5%	2.7	1.1%	6.3%	6.4%	-10
Dallas-Fort Worth	108.4	3.6%	40.7	6.5%	6.4%	7.2%	-80
Denver	35.1	2.8%	15.7	4.3%	6.8%	8.2%	-140
Detroit	9.5	0.5%	0.2	0.0%	9.6%	10.7%	-110
Fort Lauderdale	15.5	2.1%	3.1	1.6%	6.2%	8.0%	-180
Hampton Roads	25.5	3.4%	5.8	3.9%	6.2%	6.9%	-70
Hartford	7.9	1.5%	-1.1	-0.8%	8.4%	9.2%	-80
Houston	96.1	3.6%	16.5	2.8%	6.5%	7.3%	-80
Indianapolis	15.9	1.7%	4.9	2.3%	7.5%	7.9%	-40
Jacksonville	12.3	2.1%	8.3	5.2%	7.0%	8.9%	-190
Los Angeles	57.6	1.5%	26.1	2.7%	10.1%	11.0%	-90
Miami	6.9	0.7%	3.8	1.7%	7.9%	9.2%	-130
Milwaukee	7.4	0.9%	3.8	2.0%	7.6%	7.9%	-30
Minneapolis-St. Paul	49.6	2.8%	14.3	3.1%	4.9%	5.8%	-90
New Jersey	75.5	1.9%	18.4	2.0%	8.5%	9.7%	-120
New York	71.3	1.8%	0.3	0.0%	8.6%	9.4%	-80
Oakland-East Bay	8.7	0.9%	-0.1	0.0%	7.7%	9.6%	-190
Orange County	25.4	1.8%	7.8	2.0%	6.5%	8.2%	-170
Orlando	24.4	2.3%	5.1	2.0%	6.9%	8.9%	-200
Philadelphia	27.6	1.1%	10.7	1.6%	8.4%	9.3%	-90
Phoenix	40.6	2.3%	11.1	2.4%	6.9%	7.7%	-80
Pittsburgh	15.7	1.4%	11.4	4.3%	7.0%	7.7%	-70
Portland (OR)	22.6	2.2%	8.7	3.8%	7.5%	8.4%	-90
Raleigh-Durham	4.9	0.9%	1.9	1.3%	7.3%	8.2%	-90
Richmond	3.6	0.6%	-4.3	-2.7%	6.2%	6.7%	-50
Sacramento	0.9	0.1%	-0.7	-0.4%	8.9%	10.9%	-200
San Antonio	7.4	0.8%	-1.0	-0.5%	6.5%	7.1%	-60
San Diego	19.9	1.6%	6.1	2.0%	7.8%	9.5%	-170
San Francisco	24.1	2.4%	10.9	3.1%	5.9%	7.7%	-180
San Jose (Silicon Valley)	20.7	2.3%	14.5	5.4%	7.2%	9.0%	-180
Seattle-Bellevue	48.1	2.8%	10.4	2.5%	5.8%	8.0%	-220
St. Louis	12.6	1.0%	0.2	0.2%	7.9%	8.1%	-20
Stamford, CT (Fairfield County)	7.1	1.7%	1.9	1.6%	8.4%	9.2%	-80
Tampa	42.2	3.7%	11.8	3.7%	7.3%	9.3%	-200
Washington, DC	58.3	1.9%	16.6	1.8%	5.7%	5.8%	-10
West Palm Beach	10.3	2.0%	2.2	1.6%	7.7%	9.6%	-190
White Plains (Westchester Co.)	2.2	0.4%	0.3	0.2%	6.2%	7.7%	-150
U.S. totals	2206.0	1.6%	723.0	2.5%	7.3%	8.1%	-80

Source: Bureau of Labor Statistics, Jones Lang LaSalle

* Office jobs include the Professional and Business Service, Information and Financial Activities sectors

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	134,318,924	404,476	692,313	1,336,135	1.0%	19.8%	20.5%	$20.08	0.0%	550,000
Austin	45,892,366	78,453	88,048	409,139	0.9%	12.3%	13.1%	$28.20	1.1%	1,159,257
Baltimore	66,818,336	290,000	64,486	158,954	0.2%	14.4%	15.4%	$22.49	1.5%	1,069,156
Boston	159,425,140	0	-43,116	643,277	0.4%	13.8%	19.7%	$30.68	3.8%	3,291,000
Charlotte	45,852,290	771,586	433,066	688,597	1.5%	13.6%	14.4%	$21.64	1.5%	105,500
Chicago	235,143,001	0	201,448	940,227	0.4%	16.4%	19.1%	$27.40	0.0%	861,000
Cincinnati	34,842,930	0	-37,165	125,213	0.4%	17.9%	18.7%	$19.63	0.9%	636,000
Cleveland	28,139,584	450,000	486,737	261,537	0.9%	17.9%	18.4%	$19.57	-0.3%	220,000
Columbus	31,001,111	0	289,012	466,223	1.5%	15.4%	15.9%	$17.46	0.1%	408,500
Dallas	160,654,023	489,029	369,205	1,524,426	0.9%	19.9%	20.6%	$21.22	1.8%	4,422,773
Denver	113,467,950	305,000	565,966	1,092,041	1.0%	13.1%	14.2%	$23.07	1.8%	1,535,176
Detroit	60,076,515	0	396,361	499,699	0.8%	25.3%	25.9%	$18.58	-0.1%	0
Fairfield County	48,496,194	0	-109,547	-58,608	-0.1%	20.0%	22.8%	$34.11	2.6%	0
Fort Lauderdale	22,863,542	0	90,297	276,980	1.2%	17.0%	18.0%	$26.19	0.0%	31,750
Hampton Roads	20,471,279	192,980	297,513	100,748	0.5%	16.5%	16.7%	$18.17	-0.7%	299,000
Houston	151,736,287	1,937,858	1,428,050	3,550,000	2.3%	13.8%	15.7%	$28.18	0.9%	6,566,887
Indianapolis	42,929,340	104,699	103,792	666,327	1.6%	15.8%	16.1%	$16.94	-3.2%	0
Jacksonville	20,714,551	0	142,479	348,766	1.7%	16.3%	16.9%	$18.11	2.4%	0
Los Angeles	189,128,976	102,113	166,769	-45,386	0.0%	16.5%	17.3%	$32.95	2.3%	825,002
Miami	35,684,779	0	210,262	447,406	1.3%	17.2%	17.9%	$31.10	-1.0%	183,298
Minneapolis	66,030,154	0	-19,829	43,358	0.1%	15.9%	17.4%	$24.44	0.0%	0
New York	444,228,244	1,117,000	1,445,891	-587,822	-0.1%	9.6%	11.8%	$61.11	0.7%	9,091,452
New Jersey	159,323,897	1,151,274	-772,257	1,332,870	0.8%	21.8%	24.6%	$24.80	0.9%	577,000
Oakland-East Bay	54,784,988	0	134,214	837,229	1.5%	14.2%	14.8%	$25.56	1.4%	0
Orange County	93,346,365	24,843	95,761	885,262	0.9%	14.0%	14.2%	$22.84	1.0%	1,259,000
Orlando	28,090,831	0	46,774	362,017	1.3%	18.0%	18.6%	$19.97	1.3%	0
Philadelphia	144,750,254	644,086	259,144	720,826	0.5%	14.3%	15.0%	$24.25	0.4%	937,015
Phoenix	73,828,896	174,203	385,361	610,142	0.8%	23.5%	24.3%	$20.54	1.5%	107,069
Pittsburgh	48,674,527	196,000	-4,544	-14,916	0.0%	13.1%	14.2%	$22.17	-0.3%	1,636,000
Portland	58,223,740	213,800	199,846	894,641	1.5%	10.4%	11.2%	$21.30	2.1%	89,000
Raleigh / Durham	42,159,417	0	351,424	829,757	2.0%	12.6%	13.0%	$19.81	1.0%	301,000
Richmond	26,475,182	0	197,178	342,534	1.3%	13.1%	14.2%	$17.99	-1.6%	0
Sacramento	44,282,387	130,000	343,178	1,418,478	3.2%	19.1%	19.5%	$22.03	-0.5%	0
San Antonio	24,805,284	2	-10,064	199,626	0.8%	14.7%	15.7%	$20.42	0.4%	140,648
San Diego	77,993,589	248,882	-103,500	631,322	0.8%	13.9%	14.7%	$26.04	0.5%	539,542
San Francisco	73,981,344	452,182	345,179	816,880	1.1%	10.4%	11.2%	$56.07	2.6%	2,990,450
San Francisco Peninsula	28,485,617	58,963	-139,549	-62,005	-0.2%	15.0%	17.2%	$45.93	3.7%	27,000
Seattle-Bellevue	88,270,765	135,000	631,293	2,272,565	2.6%	12.1%	12.7%	$30.26	-0.1%	1,135,594
Silicon Valley	60,257,724	591,947	689,283	990,781	1.6%	13.2%	14.8%	$37.01	4.4%	3,769,412
St. Louis	42,973,507	0	-67,947	124,953	0.3%	16.4%	17.5%	$19.69	-0.3%	0
Tampa Bay	34,380,822	250,000	157,196	409,897	1.2%	18.7%	19.4%	$21.27	1.7%	76,000
Washington, DC	329,944,053	3,232,678	-653,137	-463,812	-0.1%	15.1%	16.4%	$36.13	1.5%	5,468,881
West Palm Beach	21,214,432	0	168,038	149,237	0.7%	21.6%	22.1%	$27.60	1.7%	0
Westchester County	32,303,190	0	16,171	170,584	0.5%	17.2%	18.7%	$26.26	0.6%	0
National Totals	3,774,107,599	13,747,054	9,552,075	26,511,974	0.7%	15.3%	16.8%	$29.71	1.4%	50,309,362

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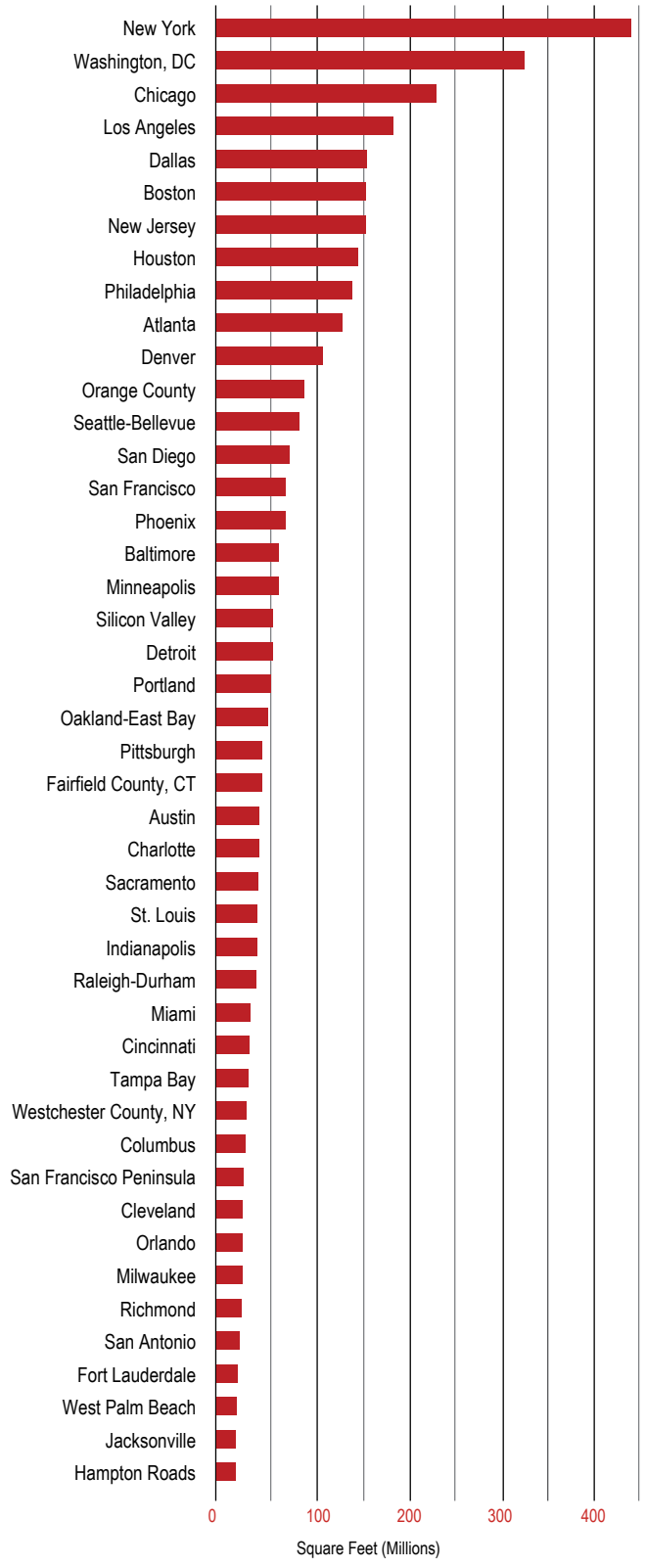
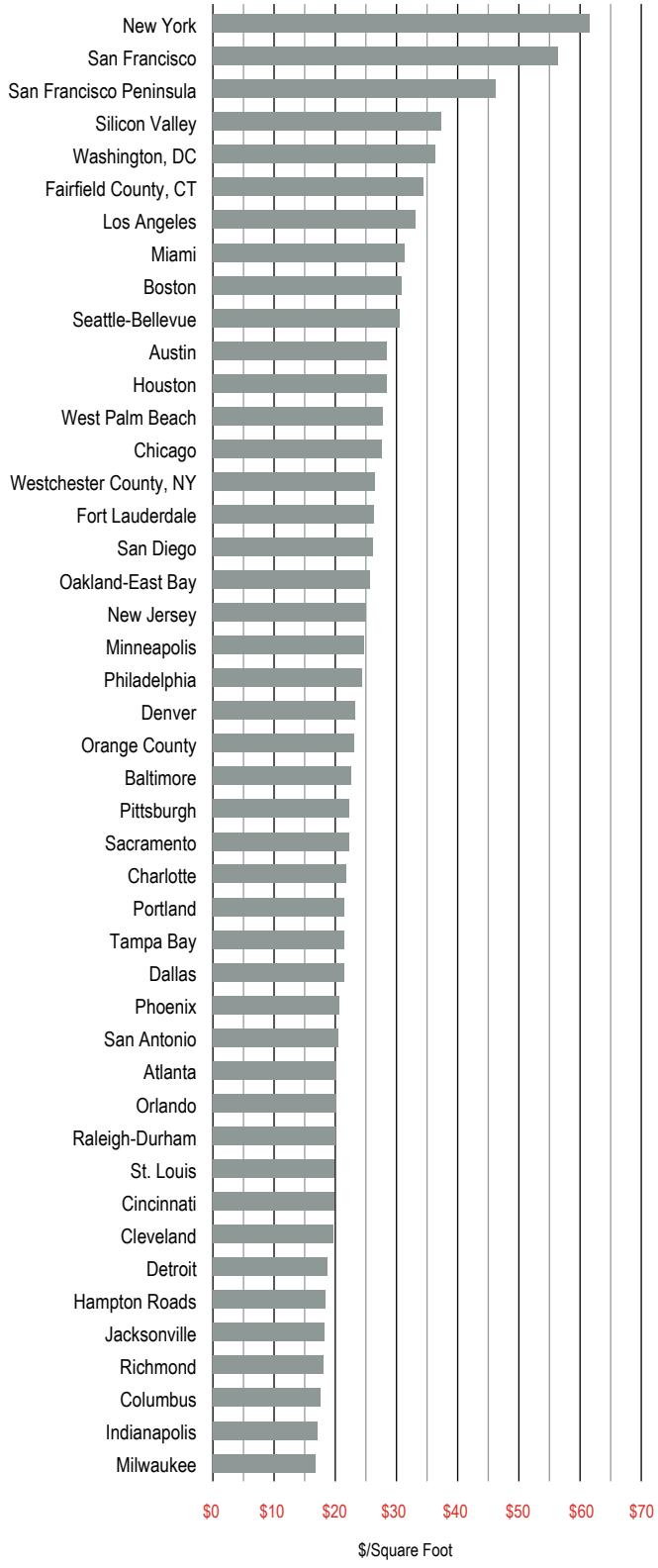
United States office rankings

Inventory



Marketed rents



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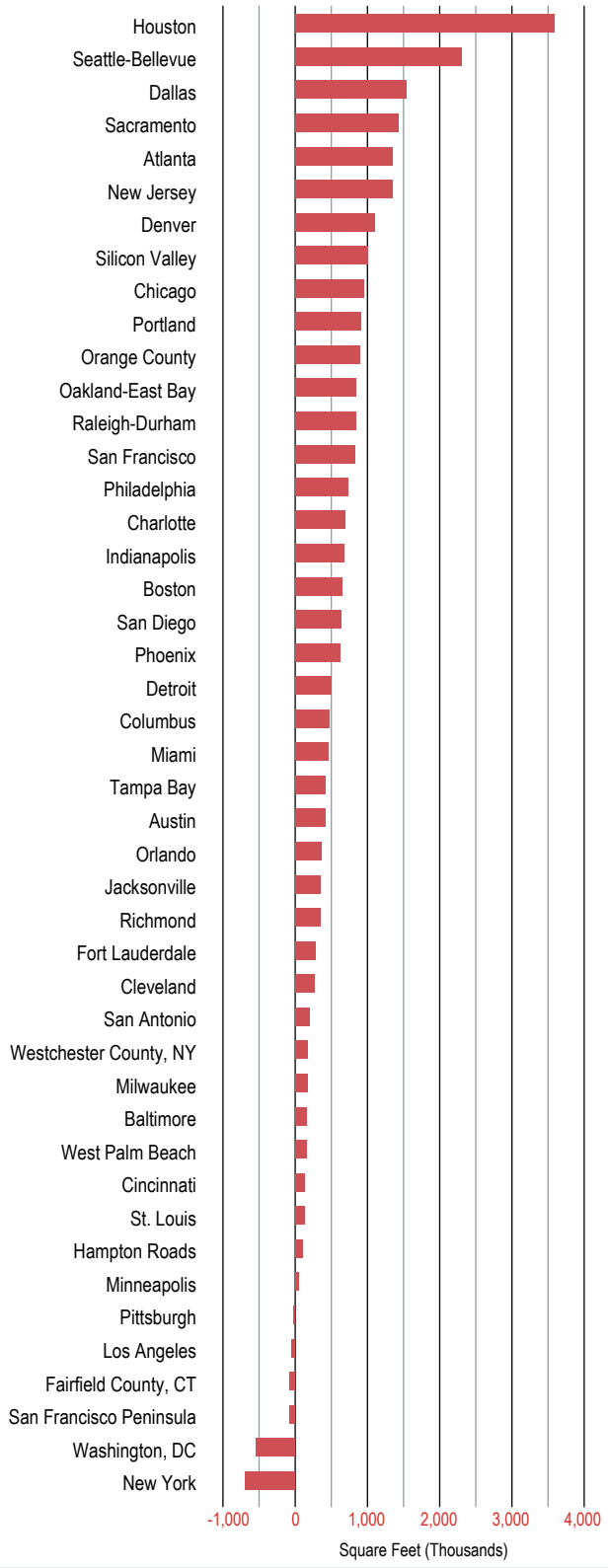
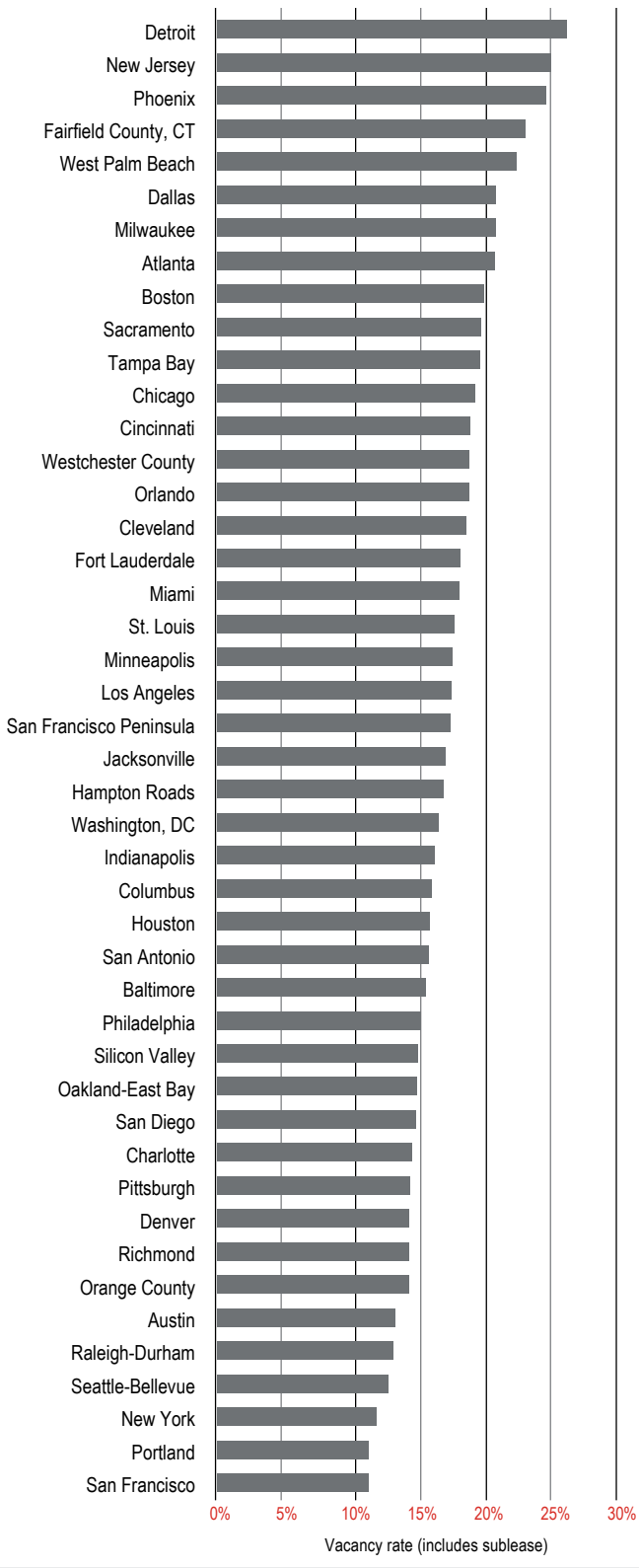
United States office rankings

YTD total net absorption (including sublease)



Total vacancy rates (including sublease)



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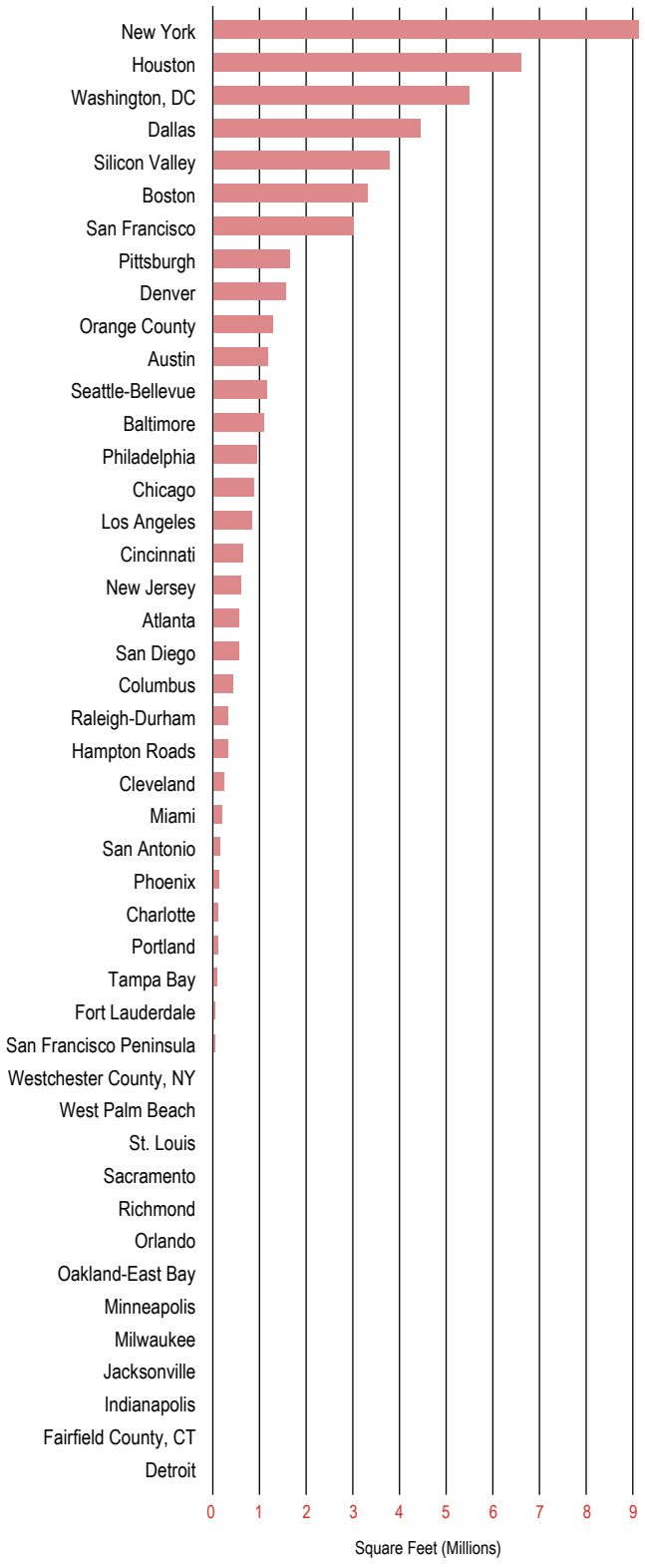
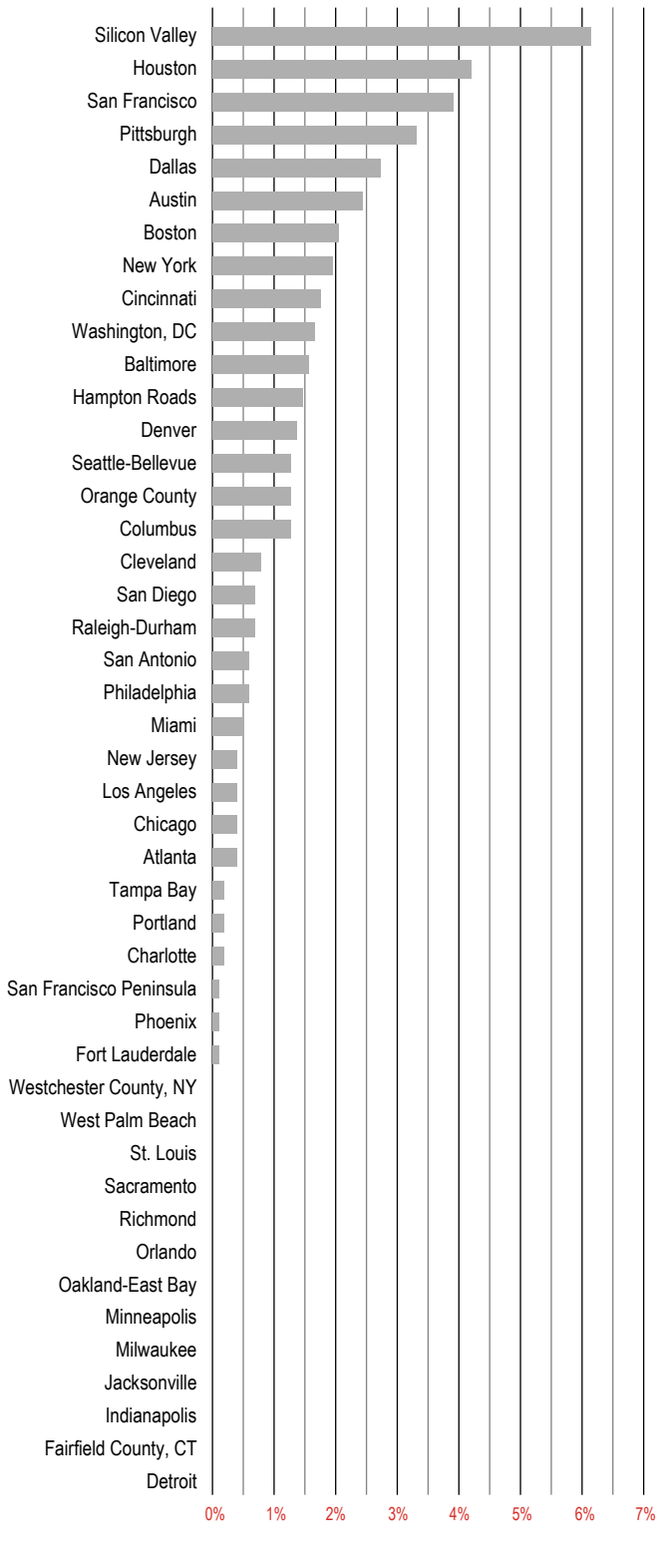
United States office rankings

Under construction



Under construction as % of inventory



The near-term tightening in the top-end of the market should also trickle down to propel the commodity A and Class B markets in urbanized environments, while non-core suburban product still lags behind the rest of the market and is likely to languish for the next few quarters, at a minimum, based on a fundamental shift of tenants to migrate to efficiency, amenities and transit.

Jones Lang LaSalle

Real value in a changing world

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