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Ambitions*

United States | Q1 2018

JLL Research Report

Office Outlook

Robust growth of the flexible space/coworking sector contrasts with deceleration in broader office demand

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3 key trends

Occupancy growth

Net absorption slowed to 3.7 million square feet during the first quarter (+0.1 percent of inventory), as activity within the tech sector was uncharacteristically slow, skilled talent shortages intensified and the energy sector remained under continued pressure.

Leasing activity

The flexible space/coworking sector gained additional momentum, as WeWork and Spaces led the U.S. office market in leasing activity.

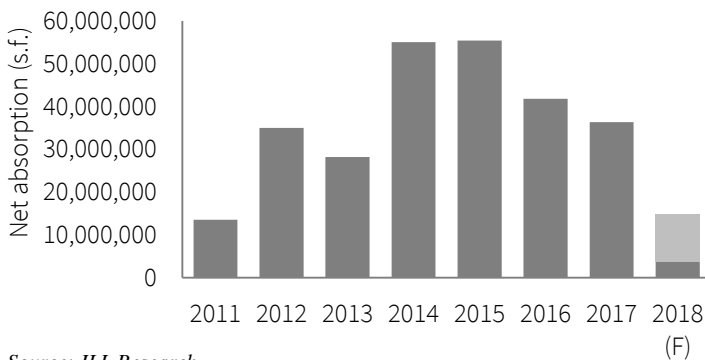
Rents and concessions

Average asking rents continued to climb, but increased concession packages placed pressure on net effective rents in many gateway cities.

Building upon the shifts in trends, fundamentals and sentiment seen throughout 2017, the U.S. office market demonstrated further signs of movement into a more balanced, slower-growth phase of the real estate cycle. Both new construction and second-generation space options are expanding, giving tenants across a variety of industries, geographies and price ranges newfound opportunities. Expectations continue to be positive, with buoyant economic growth likely to lead to stable output, employment and consumption levels in 2018.

As the market remains near peak employment and talent shortages become even more acute in an environment of rising supply, occupancy growth continues to cool. During Q1, net absorption nationally totaled just 3.7 million square feet; annualized, this rate of absorption would result in the slowest year of the expansionary cycle since 2010. Compounding this slowdown were three markets— Houston, Silicon Valley and New Jersey—posting more than 1.0 million square feet of negative net absorption each during the first quarter, in part due to remaining subleases from the energy price collapse, tech-sector consolidation and flight to quality. Absorption should recover to a degree as net new demand from creative and knowledge-intensive tenants preleasing new space move into delivered assets, but it will remain below previous years.

If occupancy growth continues at Q1 rate, 2018 absorption will be 59% slower than in 2017



Source: JLL Research

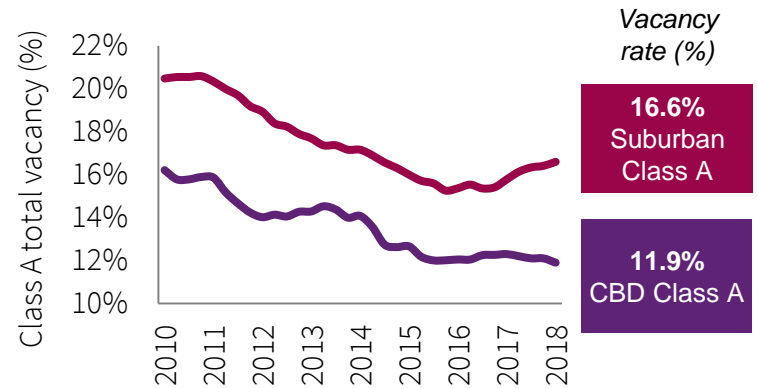
Vacancy didn't budge in Q1 but set to rise steadily in the coming quarters

At 14.8 percent, total vacancy showed no meaningful change during the first quarter, but it remains on an upward trend with the delivery of new product set to accelerate through year-end 2018 and the first half of 2019. However, this lack of change masks underlying shifts in performance at the asset class and geography level: CBD Class A vacancy, under continued demand from tenants and with higher levels of preleasing for new supply, dropped by 20 basis points to 11.9 percent, while suburban Class A vacancy rose by 20 basis points to 16.6 percent.





Class A vacancy now diverging between urban and suburban assets



Source: JLL Research

Construction activity will decline after temporary spike as developers and lenders stay cautious

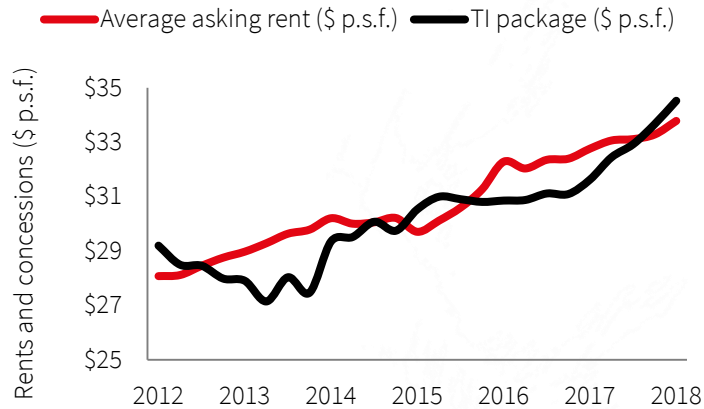
Construction jumped back above the 100 million-square-foot mark during the first quarter as a result of a select few large starts, most notably the Old Main Post Office renovation in Chicago. Development activity, however, is highly concentrated in select cities: New York, Washington, DC, and Chicago account for 33.7 percent of all construction under way in the United States despite only representing roughly one-quarter of national office space. Further large-scale deliveries will exacerbate potential oversupply in these markets, which are dominated by rightsizing and consolidating industries.

On the other hand, construction activity outside of these markets remains somewhat constrained, and while deliveries will hit 52.9 million square feet by the end of the year in the rest of the country, the active pipeline will almost entirely deliver by the end of 2019, which will also see completions halve from 2018 levels. This pullback and a similar slowdown in starts will keep vacancy increases more restrained, leading to a steady rise rather than a sharp upward swing in vacancy through the remainder of the cycle.

For tenants, this dynamic will present varying degrees of relief. In primary markets outside of Boston, Los Angeles and Seattle, where non-preleased speculative construction remains muted, a slew of new supply will open up blocks in commodity Class A product from relocating tenants, leading to cascading flight to quality and downward movement in net effective rents for cost-conscious tenants in lower-quality space. On the other hand, other markets will see sustained tightening or only moderate improvements in availability outside of select submarkets. In addition, sublease vacancy remains limited and stable at 1.4 percent and up only 1.4 million square feet over the quarter, limiting its utility as a relief valve.

Rent growth to be strong throughout 2018 before stabilizing and correcting

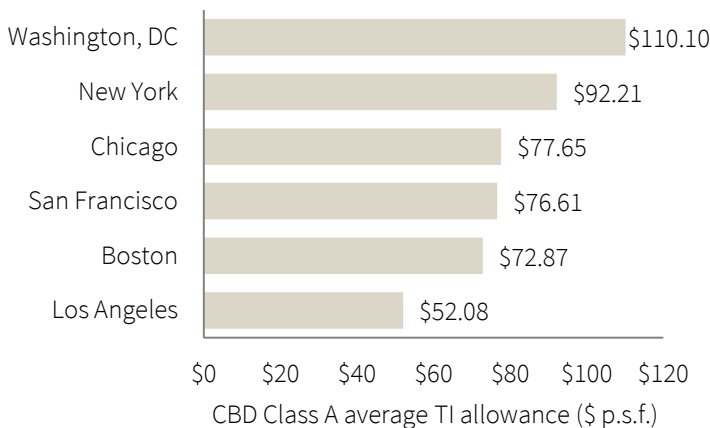
Concessions have now overtaken asking rents on a per-square-foot basis



Source: JLL Research

New supply, coupled with persistent demand in key asset classes and submarkets, is leading average asking rents higher. Direct asking rents posted overall gains of 1.6 percent to \$33.78 per square foot, driven by a strong 2.7 percent rise in suburban rents. On the other hand, CBD asking rents registered a slight decrease of 0.2 percent, falling back below the \$50-per-square-foot threshold achieved at the end of 2017. The lower level of preleasing in speculative developments (47.7 percent) and larger volume of completions (6.6 million square feet) are disproportionately boosting suburban rents, whereas CBD rents are beginning to stabilize, with top-tier blocks being taken off the market and commodity blocks coming back on, in many cases as discounted sublease space.

Concession packages in primary markets continue to rise to new heights

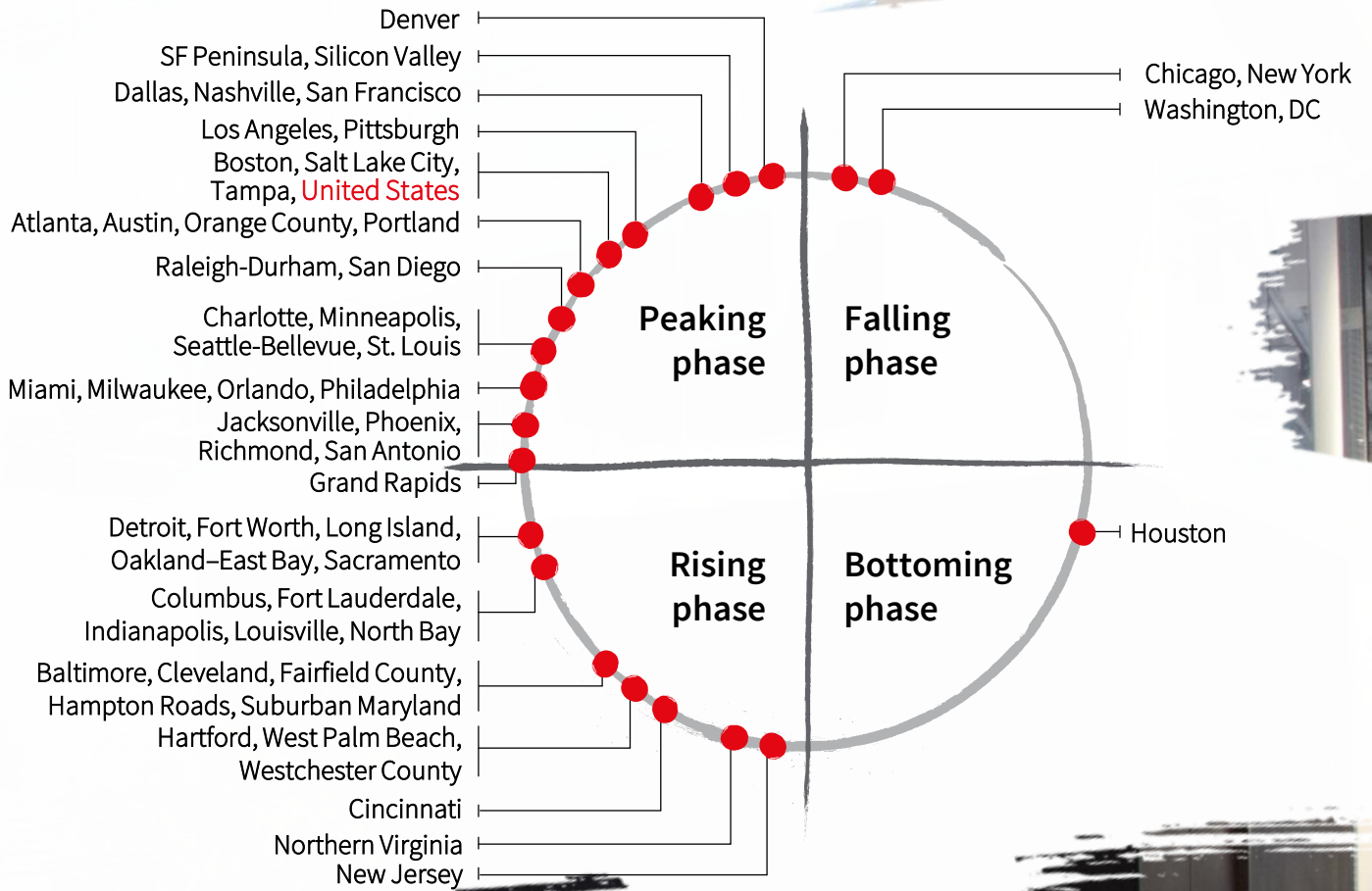


Source: JLL Research

As a result of changing supply-and-demand dynamics, landlords across the board are raising concessions at the same rate or faster than asking rent growth, in many cases leading to flat or even declining effective rents. National concession packages rose by 3.5 percent during the first quarter and are now exceeding \$75 per square foot in most primary markets and approaching or exceeding \$100 per square foot on average in Washington, DC, Chicago, and New York for new supply. Given further expected competition for a more muted amount of organic new demand as hiring and expansion become more difficult, the rise in tenant improvement allowances and free months will remain at or above the ability of landlords to increase face rents.

Despite a relatively slow first quarter in terms of occupancy growth, fundamentals remain highly positive looking ahead to the rest of 2018. New supply will enable tenants to be more active and flexible after years of constraints, while a short-term boost in rent growth will be countered by more balanced leverage dynamics and an emphasis on landlord-led action to reposition existing assets to compete with recently delivered product at more reasonable price points for a wider array of occupiers.





Local markets





Robust leasing activity kicks off the new year as market fundamentals strengthen

- Positive net absorption of 357,357 square feet was recorded during the first quarter, helped by the delivery of Phase I of NCR's 485,000 square-foot build-to-suit office building in Midtown
- Overall asking rents continued their upward trajectory, increasing 8.4 percent over the past year, ending the first quarter at \$26.28
- Investment sales start the year on a high note with Three Alliance closing at \$534 per square foot, a record price for the Atlanta office market

The first quarter of 2018 continued the positive momentum from the close of 2017. Lifted by the delivery of NCR's Phase I development, the new year led off with 357,357 square feet of positive net absorption. Overall asking rates increased 9.0 percent over the past 12-months, finishing the quarter at \$26.28, a historic high for the Metro. Urban Class A rates rose even more, closing above \$32.00 for the first time, a 10.7 percent year-over-year increase. Direct vacancy ticked slightly higher, but is expected to drop as some of the more-than 2 million square feet of deliveries from the past year begin to fill up.

Deal velocity picked up steam during the first quarter, with Central Perimeter being the notable beneficiary. Deals included Northside Hospital agreeing to nearly 180,000 square feet at 1001 Perimeter Summit, bringing 400 new jobs to the submarket. Additionally, Insight Global signed on to anchor a new 16-story office building named Twelve24 agreeing to take more than 205,000 square feet at the transit-friendly development at the Dunwoody MARTA station.

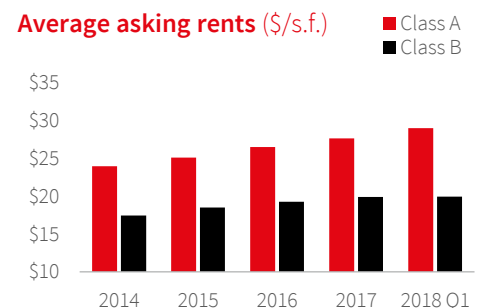
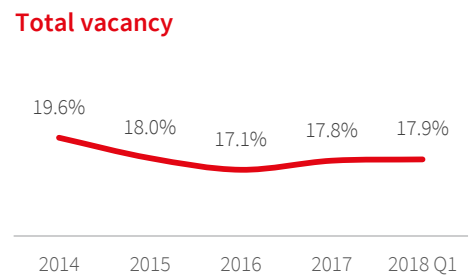
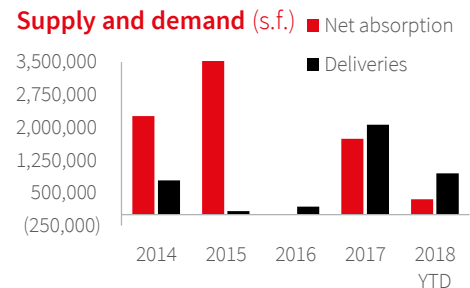
Investment sales, specifically in Buckhead, started off the year with a bang, as Three Alliance closed at a record price for the Atlanta market at more than \$530 per square foot. The highly successful Armour Yards creative office project by JPMorgan and Third & Urban also traded hands during the first quarter, setting a high water mark in the segment. Moving forward, it's possible that this deal could set the benchmark for similar creative office sales.

Outlook

Several tenants are in the market actively looking for new space, which is an encouraging sign for the new year. Two large spec developments, 4004 Perimeter Summit, which delivered without a tenant in the first quarter, and 725 Ponce, which is scheduled to be delivered in the fourth quarter, will be looking to court these potential new tenants.

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Fundamentals	Forecast
YTD net absorption	357,357 s.f. ▲
Under construction	
-Spec	1,564,212 s.f. ►
-Build-to-Suit	462,500 s.f.
Total vacancy	17.9% ▼
Average asking rent (gross)	\$26.28 p.s.f. ▲
Concessions	Steady ►





Austin office vacancy stabilizes as construction pipeline remains robust.

- Austin’s inventory remains relatively the same at just under 52 million square feet across the MSA.
- Overall vacancy rates dropped to 10.7%, down from 11.7% in Q1 2017.
- Austin’s overall average asking rent is \$38.65, up 2.1% from \$37.84 in Q1 2017.

Austin’s office environment has remained stable from Q4 2017 into Q1 2018. An additional 156,049 s.f. delivered between Mopac Centre (NW – 95,863 s.f.) and The Overlook at Barton Creek (SW – 60,168 s.f.), bringing the total inventory to 51,868,418 s.f.

Construction activity remains robust around the city, with 3,330,927 s.f. under construction, approximately 50% of which is preleased. However, there is a clear concentration, with CBD, East, and NW making up nearly 70% of all active construction. Of the citywide development underway, 800,960 s.f. is expected to deliver in the next quarter. Some of these buildings will deliver large chunks of inventory, including Westview (CBD – 100,000 s.f.), The Summit II at La Frontera (Round Rock – 95,000 s.f.), and 801 Barton Springs (S - 90,500 s.f.). In addition, two buildings broke ground in Q1 2018 – Davenport 360 (SW – 33,911 s.f.) and The Foundry (E – 95,000 s.f.) – for a total of 128,911 s.f.

Austin’s absorption levels remained positive for another quarter, coming in at 127,890 s.f. across all submarkets, accounting for 1.4% of the total inventory.

Outlook

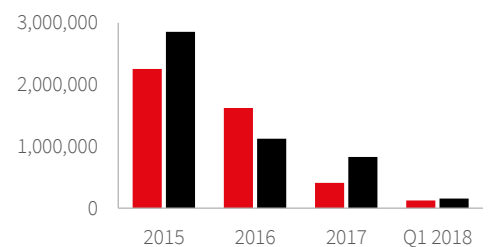
Overall, the Austin office market has remained stable over the last several quarters and we continue to have positive absorption and significant square footage under development. Large multi-national companies continue to invest in the city and it’s future, adding credibility to up and coming areas like the East submarket. With this said, rate growth is beginning to level off as Austin nears the peak of the economic cycle although there is no expectation for a downturn in the near future.

Other points to note: while large blocks tend to drive the market, they don’t always exist in areas where company’s want to be, thus smaller tenants have more optionality than vacancy might suggest.

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Fundamentals	Forecast
YTD net absorption	127,890 s.f. ▼
Under construction	3,330,927 s.f. ▲
Total vacancy	10.7% ►
Average asking rent (gross)	\$38.65 p.s.f. ▲
Concessions	Stable ►

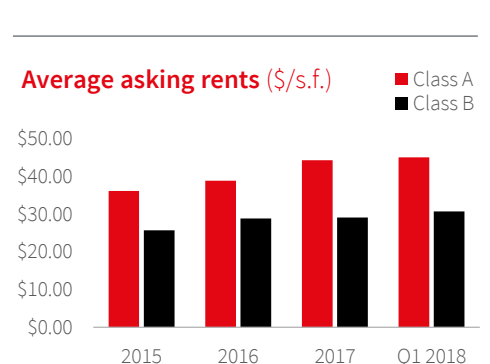
Supply and demand (s.f.) ■ Net absorption ■ Deliveries



Total vacancy



Average asking rents (\$/s.f.) ■ Class A ■ Class B





Baltimore

Leasing activity cools at the beginning of 2018 as rent and absorption growth slow down

- New supply has outpaced net absorption by a margin of 1.8 m.s.f. since 2016, yielding steadily climbing vacancy rates.
- With Class A vacancy up 140 basis points over the past year, Class A rents ticked downward by 0.8% compared to the previous quarter.
- Despite containing only 16.6% of the market's inventory, 39.8% of leasing volume during the quarter occurred in Howard County, where defense contractor, technology and healthcare tenants have driven activity.

Baltimore faced rising vacancy rates as quarterly net absorption fell below the long-term average of 200,000 s.f. for the sixth straight quarter amidst a decline in overall leasing activity. Even with Class B supply shrinking by nearly 850,000 s.f. due to conversions and owner/user sales since early 2016, Baltimore's total vacancy rate has steadily risen from a cyclical low of 12.4% as new supply has outpaced below average occupancy growth. Growth in Class A asking rents has correspondingly slowed in the past 18 months.

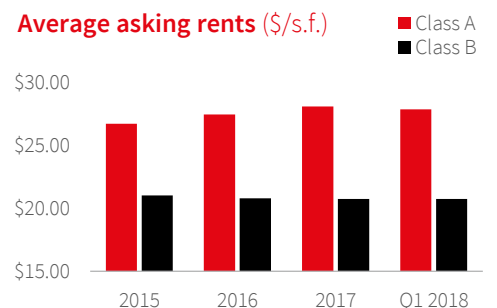
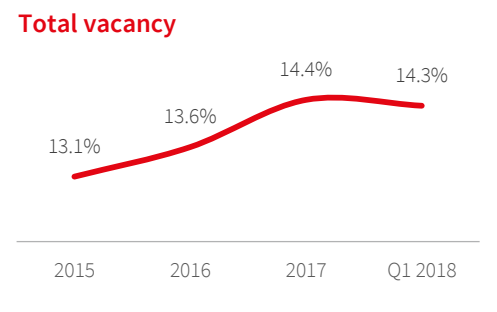
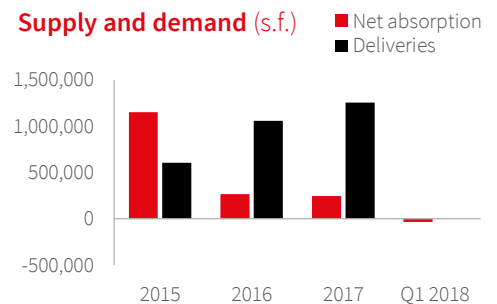
The top leasing deal of the quarter landed in Annapolis Junction, where Verizon will relocate within Howard County to 59,161 s.f. of new construction as their footprint shrinks by 60%. The move characterizes Baltimore's recent sluggish occupancy growth: well positioned Class A product has driven leasing activity, but demand has largely come from relocations within the market, frequently with significant downsizing. While the overall market has trended flat, performance has increasingly diverged between mixed-use projects and general market trends. Downtown Columbia has led the market in leveraging its amenity base to attract tenants, experiencing nearly 300,000 s.f. of positive net absorption over the past year, while rents have spiked 9.3%.

Outlook

Aided by several speculative starts by St. John Properties, the development pipeline sat at only 50.1% preleased, with over 500,000 s.f. of vacant space scheduled to deliver in 2018. New supply will cause vacancy rates to continue to climb, and as a result inhibit rental rate growth in second generation Class A space. Howard County, and to a lesser extent BWI, will remain the exception, however, as they benefit from increasing activity surrounding cyber security and defense contractors.

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Fundamentals	Forecast
YTD net absorption	-34,330 s.f. ▲
Under construction	1,057,045 s.f. ►
Total vacancy	14.3% ▲
Average asking rent (gross)	\$24.89 p.s.f. ►
Concessions	Stable ►





Boston

New supply is disappearing rapidly in the booming market

- Strong metro-wide demand in 2017 leads to largest first quarter absorption result since 2011.
- Rents remained flat during the quarter, but significant supply constraints are expected to result in more growth during the year.
- Overall market fundamentals remain incredibly tight, with vacancy now below the last low record of 13.9 percent in 2008.

Boston's metro economy maintained its leading position going into 2018 as a hotbed for top employers and a skilled workforce. From 2016 to 2017, total nonfarm payroll grew by 2 percent, or more than 51,000 jobs. This surpasses the metro's 1.7 percent average on record since 2010 and the US average nonfarm payroll growth of 1.3 percent during that time. As a result, the perpetually strengthening labor force remained a major attraction for employers, and announcements of major expansions and relocations have become more of a norm than an exception over the past year.

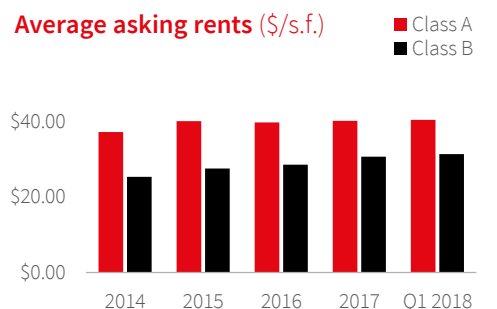
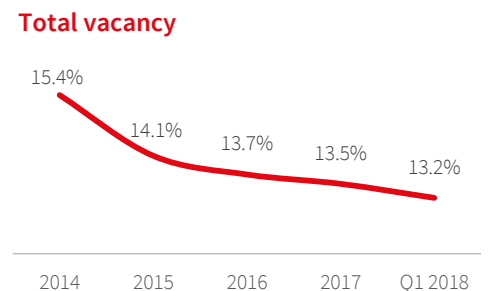
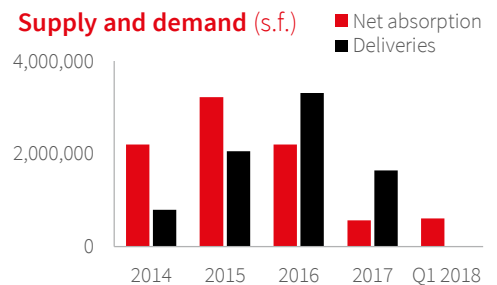
These corporate expansions have been a boon to developers and by the end of the quarter the city of Boston's 1.4-million-square-foot development pipeline was 95 percent pre-leased, with the final large blocks of space going to Rapid7 at The Hub on Causeway and Cengage at Pier 4. A similar story is unfolding in Cambridge: the 1.3-million-square-foot pipeline is 61 percent preleased, with Phillips' lease at Cambridge Crossing one of the latest in the suburban to urban migration stories. With the only remaining blocks of new construction concentrated in the suburbs, the market's 70 percent pre-lease rate is the highest of any primary office market across the country.

Outlook

Ever-present supply constraints plus recently awarded development approvals have many people thinking that new, speculative development could become a reality in Boston and Cambridge in the near term. And while certain suburban markets remain challenged by pockets of elevated vacancy, we expect to see urban proximity continue to push demand into the 128/Mass Pike submarket, and at the same time increase renewal activity in the less costly, broader suburban market during 2018.

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Fundamentals	Forecast
YTD net absorption	609,847 s.f. ▲
Under construction	3,468,000 s.f. ►
Total vacancy	13.2% ▼
Average asking rent (gross)	\$36.67 p.s.f. ▲
Concessions	Rising ▲





Charlotte

Coworking, construction, and conversion: the three C's shaping 2018

- Coworking continues to grab headlines as more concepts enter the market.
- The construction pipeline reached 3.0 million square feet this quarter, amounting to 6% of the existing office inventory.
- The Lynx Blue Line extension from Uptown to UNC Charlotte opened in March, providing opportunities for developers to breathe life into underutilized facilities.

Strong construction activity will undoubtedly push short-term vacancy rates up, but with a lack of quality large block availabilities across the market, tenant demand will snatch up newly delivered product quickly. Rental rates continued to steadily rise, with Class A spaces increasing to \$29.59, a 7.9% jump from Q1 2017. Net absorption tracked positive in Q1, posting 306,811 square feet across the market.

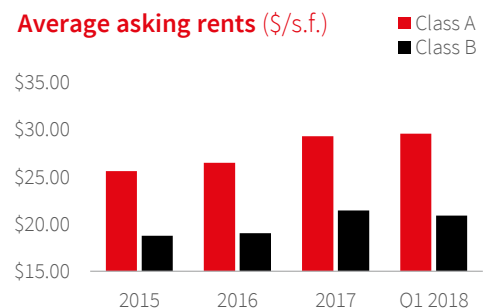
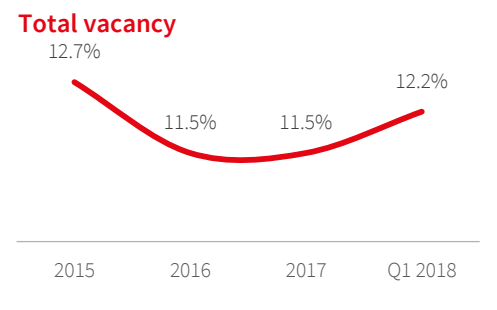
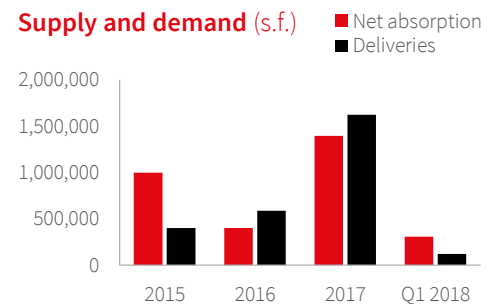
Jeld Wen's new corporate headquarters delivered in the Airport submarket, yielding the largest block of absorption for the market with 120,000 square feet. Noteworthy leasing activity came in Midtown/South End, as the coworking company Spaces leased 27,000 square feet at 307 West Tremont Avenue. Spaces' footprint will total 58,000 square feet in the urban core of Uptown and Midtown/South End, likely in response to WeWork's continued expansion in the market, as well as increased presence of competition in the marketplace.

Key sales this quarter came outside the Charlotte city limits. The Daimler-anchored building in Fort Mill, SC traded for \$40 million, purchased by Robin Global Property Trust and The Park Huntersville, in the Northeast I-77 submarket, sold for \$62.5 million.

Outlook

As more cranes continue to dot the Charlotte skyline, creative office conversions are playing a major role in the repurposing of aging assets. Active projects include Tompkins Hall, where Duke Energy will be occupying later this year, Atco's renovations of the former Model T production facilities at Camp North End, and Cambridge Properties, who is converting a former Kohl's department store into office space in the University submarket. Most of these projects are on or close to the Blue Line extension, signs of continued investment along the recently opened light rail.

Fundamentals	Forecast
YTD net absorption	306,811 s.f. ▲
Under construction	3,032,016 s.f. ▲
Total vacancy	12.2% ▲
Average asking rent (gross)	\$26.89 p.s.f. ▲
Concessions	Rising ▲



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Chicago-Downtown

Reassessed and at their best, office players still bumping up pricing while occupancy keeps pace

- GGP moved into 350 N Orleans, making way for Bank of America-anchored 110 N Wacker to begin construction.
- Wilson Sporting Goods moved into Prudential Plaza, whose sale to Sterling Bay and Wanxiang came in at \$292 per-square-foot.
- While product under development remains less than 5.0 percent of inventory, 12.9 million-square-foot of large blocks on the market creates ample options for tenants in the market.

Office market bifurcation is ever more clear as many exciting projects in Fulton Market and the West Loop edge closer to delivery. As landlords reacted to the triennial property tax reassessment, the spread between Class A and Class B asking rent ballooned 35.2 percent quarter-over-quarter. Landlords may be offsetting high face value rents and construction pricing with concession packages. Tenant improvement allowances are up 15.6 percent on average across the downtown market, with allowances for new leases jumping by 27.1 percent over the past three years. In second generation, Class A space, many financial services and law firms rightsized and left high tax and operating expense large blocks on the market. Balancing this loss is absorption from suburban relocations like McGraw-Hill to 120 S Riverside and AdTalem Education to 500 W Monroe. Urban migration and the geographic desirability of West Loop offices next to the Metra and Riverwalk may help constrict increases to vacancy this year.

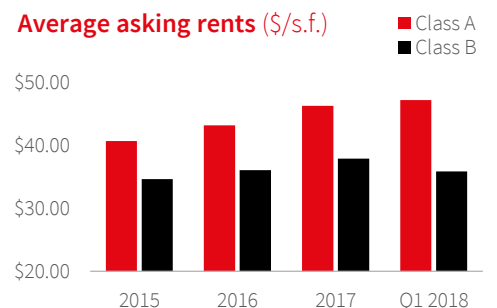
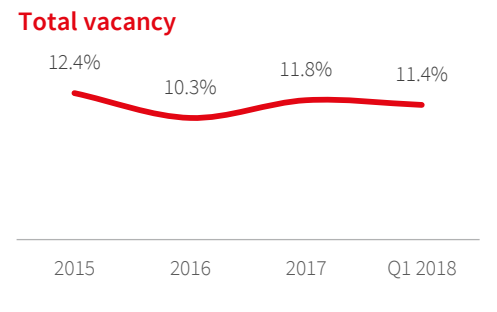
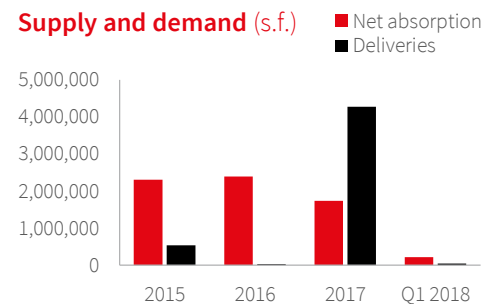
Meanwhile, demand for creatively branded and amenitized space amped up. Coworking leasing activity shows no sign of slowdown, as The Vault took 1115 W Fulton Market and SPACES by Regus leased all of the to-be-renovated former Sports Authority at 620 N LaSalle. And while overall Central Loop absorption remains negative, quarterly leasing activity for creative Class B 125 S Clark and 1 N Dearborn topped 130,000 s.f. Tech star Screenshot just moved into 52,000 s.f. at 1 N Dearborn.

Outlook

As Sterling Bay's banners fenced off Lincoln Yards, we welcome two new, non-CBD submarkets: Goose Island and Clybourn Corridor. These mixed-use development areas could compete with live-work-play Fulton Market, draw tenants out of the traditional CBD or define a new demand segment entirely.

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Fundamentals	Forecast
YTD net absorption	220,356 s.f. ▼
Under construction	7,342,820 s.f. ►
Total vacancy	11.4% ►
Average asking rent (gross)	\$41.50 p.s.f. ▲
Concessions	Rising ►





Chicago-Suburbs

Stable Class A product starts 2018 strong

- Class A rents climbed to \$26.20 per square foot
- Depomed, an out-of-market company, signed a lease at Landmark of Lake Forest I, will move into new HQ in third quarter
- Caterpillar's highly anticipated move to Corporate 500 in Deerfield realized this quarter

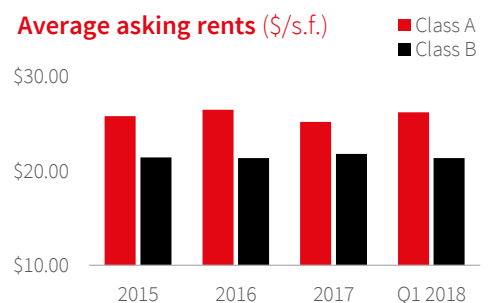
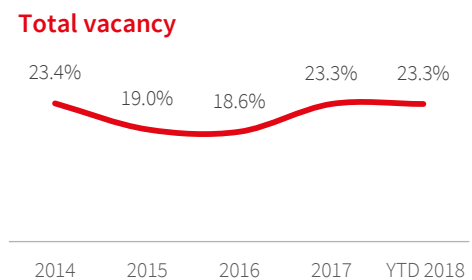
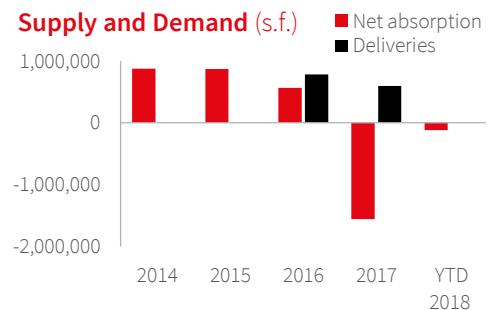
Despite overall negative absorption, Q1 saw the market kick off 2018 to a strong start: Class A product recorded 113,665 square feet. North Lake continues to be the land of pharmaceutical companies, with Depomed signing a lease this quarter to relocate their HQ from California to the Landmark of Lake Forest I. Landmark I saw Abbott Laboratories move in this quarter, cementing North Lake's status as a pharmaceutical hub. In contrast, the Walgreens campus in Northbrook is still on the sublease market. Despite a possible shift in the healthcare mammoth, the Northern submarkets remain favorable for life science companies. The O'Hare submarket continued to perform positively as the American Academy of Dermatology moved into their new 44,000-square-foot space at 9500 W. Bryn Mawr in Rosemont, relocating from 930 Woodfield in Schaumburg. Batory Foods also moved into their new 29,000-square-foot space at O'Hare International Center. Vacancy remained at 23.3% this quarter despite rightsizing, significant move-outs and a migration of tenants closer to downtown, signaling market stability.

Outlook

GE Healthcare's 253,000-square-foot move-out in the Northwest could provide another opportunity for developers to reinvest in the market. Zurich's former headquarters, now known as Schaumburg Towers, is a prime example of redeveloping corporate campuses into multi-tenant buildings. Another example of redevelopment opportunities is the repositioning of the Motorola Solutions campus into a community environment. A \$30.1 million loan was approved a few weeks ago for the over 200-acre site, which previously announced a TopGolf venue. While the final plan has not yet been finalized, this construction—coupled with reinvestment in town centers across suburbs such as Wheeling—will shift the dynamic in the suburbs.

For more information, contact: Lauren Tilmont | lauren.tilmont@am.jll.com

Fundamentals	Forecast
YTD net absorption	-118,561 s.f. ►
Under construction	437,905 s.f. ▲
Total vacancy	23.3% ►
Average asking rent (gross)	\$23.38 p.s.f. ▲
Concessions	Stable ►





Urban submarkets driving leasing activity to start 2018

- Redevelopment efforts continue to surge throughout Cincinnati's urban periphery
- Following a quiet year in Cincinnati, leasing activity among the urban submarkets has been healthy to start 2018, with several tenants expanding their current footprint in the market
- Activity from investors has been active throughout suburban Cincinnati with several notable sales occurring in the first quarter

Despite a negative absorption number to start the year, Cincinnati has seen a healthy amount of activity. With several leasing commitments north of the 10,000-square-foot range, the city is once again showing its office market capabilities to not only attract new tenants to market, but also retain its current ones. Although new construction is still lacking, redevelopment continues to surge in the urban peripheral market as TAMI companies (technology, advertising, media and information) continue to migrate to the area. In the first quarter, the largest lease signed in the CBD Peripheral was signed by a design company. Equator Design, a subsidiary of Matthews International, leased the remaining 12,880 square-feet at the newly constructed Empower Media Marketing headquarters.

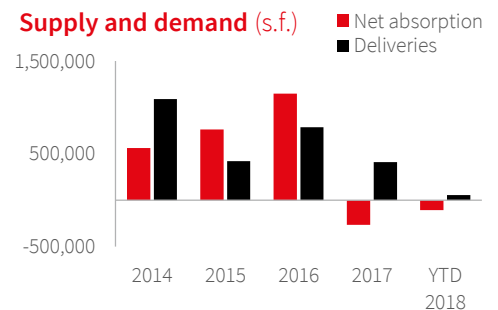
The Cincinnati office market has also been seeing activity from local and out-of-state investors with the most notable deal of the quarter being the sale of Toyota's Northern Kentucky Headquarters. The vacant building was purchased by Covington-based, Corporex, with the intention to attract a single tenant user to occupy the whole 200,000-square-foot building. This sale is proof of the confidence local investors have in the strength of the Cincinnati office market.

Outlook

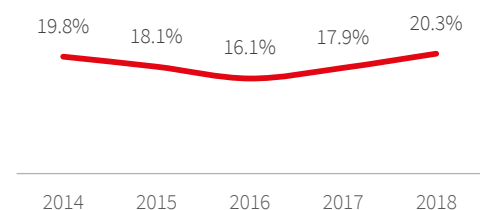
As several redevelopment and renovation projects in the CBD and CBD Peripheral submarkets are reaching completion, tenants in the market are looking to these newly constructed spaces for relocation. In just the first few months of 2018, we have begun to see leasing activity concentrate within the urban submarkets. With demand high for rare tenant amenities such as restaurants, hotels, and entertainment, tenant migration will continue to increase into Cincinnati's urban core throughout 2018. This will keep developers scouring the market for unique redevelopment opportunities.

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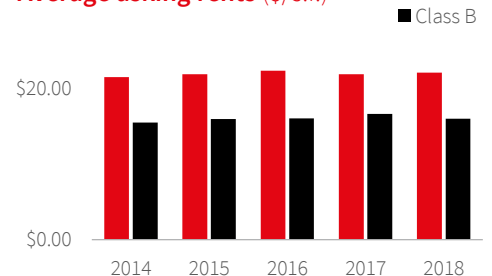
Fundamentals	Forecast
YTD net absorption	-105,906 s.f. ▲
Under construction	88,000 s.f. ►
Total vacancy	20.3% ►
Average asking rent (gross)	\$19.22 p.s.f. ►
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)





Cleveland

Trends to watch in 2018: Spec construction, investment sales, HQ expansions and downtown's renaissance

- More than 300,000 square feet of speculative office space will hit the market this spring. Preleasing currently stands around 50.0 percent.
- Planned moves by Forest City, NRP, Electronic Merchant Systems and others will tighten vacancy downtown, giving landlords more leverage.
- Supply and demand will be balanced in 2018. Vacancy will end the year around 19.0 percent with rent gains between 1.0 and 3.0 percent.

More than 300,000 square feet of speculative office space is set to deliver in the second quarter of 2018. This is an extraordinary amount of new product for the Cleveland market, which hasn't seen any speculative office development since 2013 when the Ernst & Young Tower opened in the Flats. The new office space is split between four developments, two in Midtown and two in the East submarket. The two buildings in Midtown, Link 59 and the Phoenix building, are being developed by Hemingway. While in the East submarket, the Van Aken and Pinecrest projects are being developed by RMS and Fairmount, respectively. These developments are roughly 50.0 percent preleased and we expect commitment levels to rise in the near future as these developments open for business and tenants are able to tour the buildings.

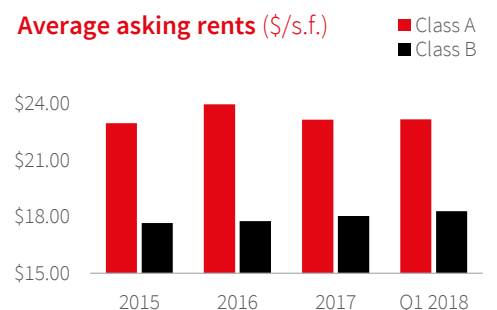
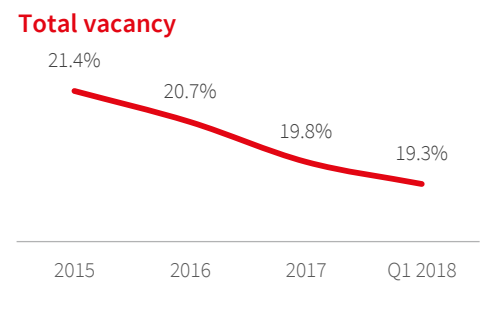
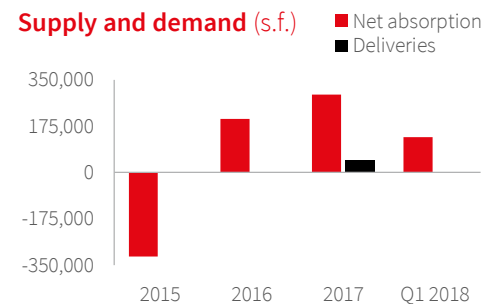
While tenants are being presented with new options in the suburbs, options downtown are dwindling, and vacancy in the city center is set to get even tighter this spring. Forest City is preparing to relocate its headquarters into 148,000 square feet at Key Tower. The move will represent an upgrade for Forest City and the space it leaves behind will be converted to residential use. In addition, downtown is preparing to welcome two new tenants from the suburbs. NRP leased 41,000 square feet at the Halle building and Electronic Merchant Systems will move into 45,000 square feet at 250 W Huron.

Outlook

Employment growth and office demand will continue in positive territory in 2018. However, with 300,000 square feet of speculative office space set to hit the market, we see vacancy ending the year relatively unchanged around 19.0 percent. Demand will remain weighted towards Class A assets, as tenants are increasingly willing to pay a premium for brand visibility, amenities, and operational efficiencies. Rents will continue to appreciate gradually in the 1.0 to 3.0 percent range as the market tightens and owners reposition assets.

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Fundamentals	Forecast
YTD net absorption	133,236 s.f. ▲
Under construction	306,000 s.f. ▼
Total vacancy	19.3% ►
Average asking rent (gross)	\$19.35 p.s.f. ▲
Concessions	Stable ▼





Columbus

Demand for premium space apparent throughout market

- Class A demand continued into the first quarter of 2018 with 140,725 square feet of net absorption
- New product in New Albany and Polaris saw over 90,000 square feet of leasing activity
- An influx of premium space is set to hit the market due to an abundance of future speculative construction

Class A demand continued into the first quarter of 2018 with 140,725 square feet of net absorption. Leasing activity was spread throughout the market, most notably in premium CBD space and suburban submarkets like New Albany and Polaris. Roughly 55,000 square feet was leased at the Huntington Center, including 47,000 square feet on the 13th and 14th floors by CoverMyMeds. Availability in the Arena District also remains tight as vacancy is just 2.4 percent despite negative absorption in the first quarter.

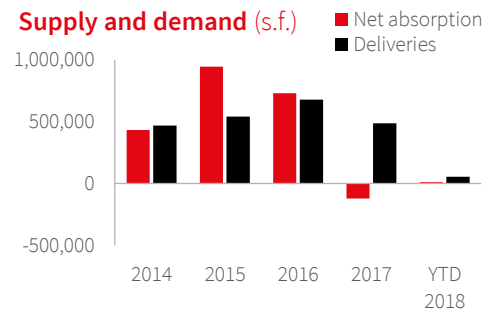
Leasing velocity in speculative product, as well as premium existing product, remains a market driver. Over 190,000 square feet of total leasing activity occurred in New Albany, including the completion of a 56,000-square-foot building on Walton Parkway pre-leased by EASi. In Polaris, Anthem relocated to 35,000 square feet at the recently delivered Pointe at Polaris. The flight to quality has been apparent in recent years; Class A vacancy has dropped 2.0 percent since 2013 despite over 1.0 million square feet of speculative deliveries. In that time span, net absorption in Class A product has accounted for 74.3 percent of total absorption in the market.

Outlook

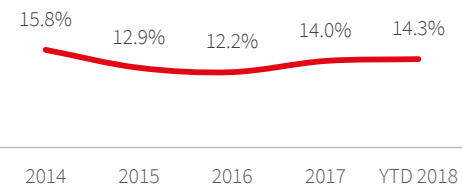
With the number of planned projects throughout the region growing by the day, JLL is currently tracking up to 3.0 million square feet of Class A speculative product expected to deliver in the next five years. This amount of new inventory will likely lead to a consistent rise in total vacancy as more projects come to fruition. With that said, rental rate appreciation could soften as landlords reposition assets and availability within amenity-rich submarkets rises. Large blocks of space may become available within older product, providing a potential strategy for the high number of scaling companies in the region: plan for future growth by locating in older inventory that ensures space that is both affordable and sizable.

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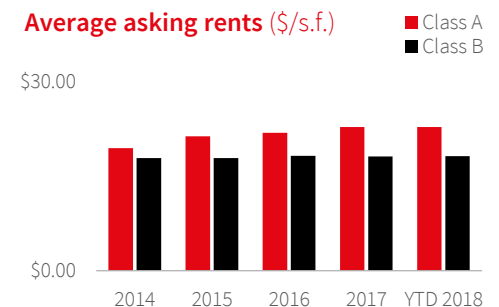
Fundamentals	Forecast
YTD net absorption	10,118 s.f. ▼
Under construction	842,000 s.f. ▲
Total vacancy	14.3% ▲
Average asking rent (gross)	\$19.89 p.s.f. ▲
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)





Dallas-Fort Worth

Big users continue to drive market-wide demand

- Liberty Mutual adds 5,000 jobs and 1.1 million s.f. to Far North Dallas with several more large occupiers following suit
- Rent growth slows as new speculative supply outpaces demand
- As buildings increase in value, rising operating expenses will be a major theme moving forward

As we enter the eighth year of this real estate cycle, Dallas-Fort Worth has shot to the top of the most in-demand office markets in the country. Despite the fact that rental rates are reaching 15% above their prerecession highs and unemployment is closing in on 3%, the cost to do business in DFW still remains at least 20% cheaper than the top coastal cities. The DFW office market has accommodated this demand by delivering over 20 million s.f. in the last three years with another 7.5 million underway. Preleasing activity appears healthy with 69% of the space under construction already spoken for. However, when factoring out single-tenant, build-to-suit projects, this figure drops to 35%. While this is not a new trend in DFW, its effect is felt as rental rate growth begins to wane.

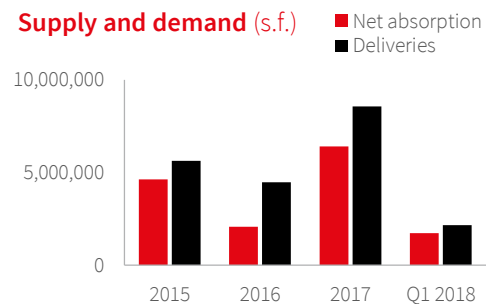
Historically concentrated in Far North Dallas, these large build-to-suit projects are beginning to appear elsewhere in the market: Las Colinas saw Pioneer Natural Resources break ground on its 1.1 million s.f. campus at Hidden Ridge and Signet Jewelers moved into its 225k s.f. building in Cypress Waters. Meanwhile, Mercedes Benz Financial (200k s.f.), American Airlines (1.8m s.f.) and Charles Schwab (500k s.f.) recently broke ground on the Fort Worth side of the market.

Outlook

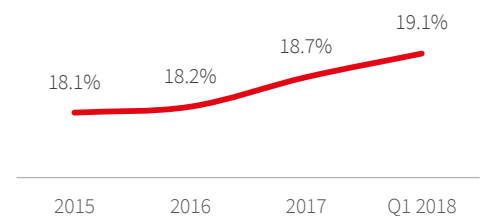
Expect rising occupancy costs in the coming quarters to be primarily driven by higher operating expenses as appraised property values – and therefore taxes – continue to increase. To accommodate for this, base rental rate growth could further slow, especially in Uptown. While absorption will continue to be driven by large users occupying new campuses, we are currently tracking over 100 requirements in the 25k – 100k s.f. range, so we are optimistic that the abundant new multi-tenant spec space will get chipped away at throughout the coming quarters, even in the absence of another mega-deal.

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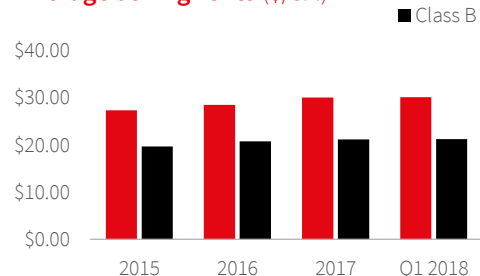
Fundamentals	Forecast
YTD net absorption	1,736,416 s.f. ▲
Under construction	7,513,916 s.f. ▼
Total vacancy	18.7% ►
Average asking rent (gross)	\$26.64 p.s.f. ▲
Concessions	Stable ▲



Total vacancy



Average asking rents (\$/s.f.)





New construction in 2018 is expected to shatter the 15-year record

- New construction, at 49.5 percent preleased, has caused an increase in vacancy. As tenants occupy space later in the year, rates will taper.
- Sublease space continues to lease up, especially in the CBD where over 200,000 square feet of sublease space was absorbed.
- Rental rate growth is being driven by new construction and increased interest in hot neighborhoods like LoDo, RiNo and Platte Valley.

Largely driven by new construction, direct and total vacancy increased 90 basis points and 80 basis points, respectively. This increase also accounted for some tenant contraction, however there are a handful of leases in the queue set to occupy later this year. Seven properties totaling 1,338,124 square feet delivered this quarter: Canyon 28 and 3107 Iris in Boulder, The Yard at Denargo Market and Zeppelin Station in Midtown Suburbs, Atria in Northwest, INOVA Dry Creek 2 in Southeast Suburban and 1144 Fifteenth in West CBD. Together these properties are 44.0 percent preleased.

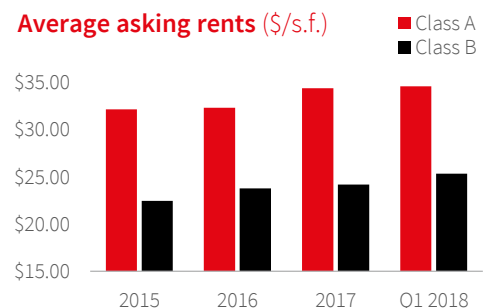
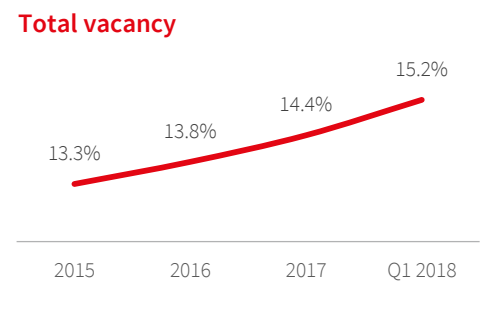
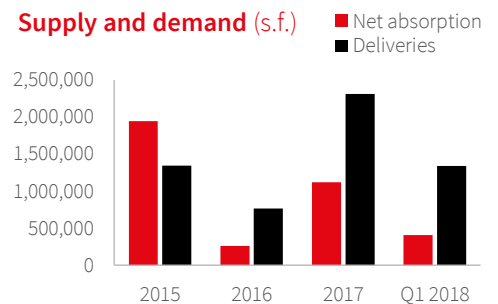
Newly delivered product, paired with projects currently under construction asking near-record rental rates, caused a 2.3 percent quarter-over-quarter and 6.0 percent rate growth over the past year, market-wide. Rate growth is cut in half when looking only at commodity buildings constructed between 1970 and 1990. New development is occurring throughout the market, but is largely centered in hot neighborhoods like LoDo, RiNo and Platte Valley, where 65.1 percent of all construction is taking place. With new office product comes more retail and restaurant space, inviting a wide range of tenants to lease space.

Outlook

Denver continues to land on the short-list for users and investors alike. Unemployment has slowly inched upward to 3.2 percent in January 2018 after hanging out below 3.0 percent for much of 2017. The economy remains strong, but with rising availability in parts of the market, users are gaining a better hand at negotiating deal terms. Many investors are itching to get their foot into the Denver office market, and are willing to pay for it. Last year, a high-water mark was set with the sale of 1401 Lawrence at \$724 per square foot. Newer buildings in prime locations could fetch even more this year.

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Fundamentals	Forecast
YTD net absorption	408,154 s.f. ▲
Under construction	2,683,147 s.f. ▼
Total vacancy	15.2% ▼
Average asking rent (gross)	\$29.50 p.s.f. ►
Concessions	Rising ▲





Overall vacancy creeps up amid quiet first quarter

- Vacancy sees slight uptick in Q1, as leasing activity is muted and large sublease space became vacant.
- Rent growth has plateaued a bit as the market awaits new supply in both urban and suburban submarkets.
- Southfield sees some notable leasing activity after losing a few notable tenants last year including Microsoft and Barton Malow.

Detroit's office market picked up where it left off at the end of 2017, with buzz and optimism continuing downtown. Average asking rents are currently \$19.16 per square foot. Total vacancy is currently 18.9 percent, a 1.4 percent drop from this time last year. There were a few notable announcements in the first quarter, such as Ford's plans to relocate their autonomous vehicle strategy team, "Ford Factory," in Corktown. In the suburbs, auto supplier Auria Solutions opened their first North American Headquarters in Southfield, while ConcertoHealth moved their regional office from Detroit to a 15,493-square-foot space in Southfield. Ponyride, one of Detroit's oldest coworking operators, announced their intention to sell their 30,000-square-foot building in Corktown while relocating operations to New Center. Meanwhile, companies like Bernard Financial and Doner are taking small spaces in coworking locations to enhance their downtown presence.

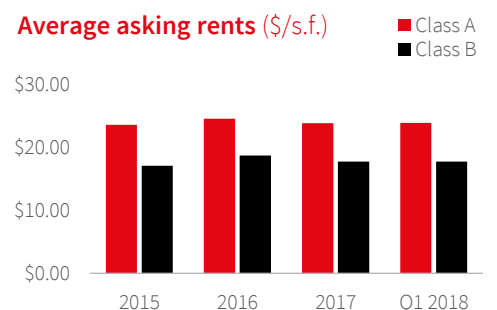
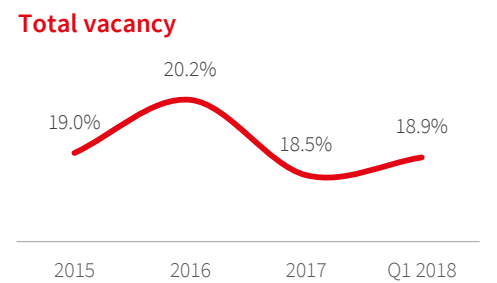
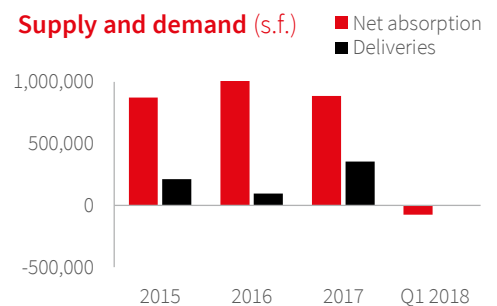
On the investment sales front, two office buildings in Auburn Hills traded for a combined \$27.7 million as part of a more extensive, 13-property portfolio. Dan Gilbert's Bedrock Real Estate announced the yet another addition to their downtown portfolio, a \$5.0 million purchase of the 63,000-square-foot office building at 201 W Fort Street.

Outlook

2018 is poised to be another great year of growth for Detroit's office market. With transformational developments underway like the Hudson's site downtown, and others in the pipeline like the Monroe Block and the to-be-determined jail site development, the buzz downtown is palpable. It will be interesting to see how the new Class A development impacts rents downtown and whether or not tenants will move outside of the CBD if they begin to be priced out.

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Fundamentals	Forecast
YTD net absorption	-75,203 s.f. ▲
Under construction	950,528 s.f. ▲
Total vacancy	18.9% ▼
Average asking rent (gross)	\$19.16 p.s.f. ▲
Concessions	Falling ▼





East Bay I-680 Corridor

Strong demand along the I-680 Corridor makes for a well-rounded market

- Capital markets activity continues to drive rent momentum in transit-served submarkets.
- Touring activity has been strong for larger users in the South 680 Corridor, but recent large block availabilities in the North 680 Corridor opens up the market.

Activity is strong on both ends of the I-680 Corridor. Demand in the north end is being driven particularly by small and midsize FIRE tenants, with some large user activity. Cerus Corporation leased 65,000 square feet at 1220 Concord Ave, and Arch MI renewed 28,000 square feet at 3003 Oak Road. In the Tri-Valley, large users 20,000 square feet and above are active in Class A projects like Park Place, Rosewood Commons, and Bishop Ranch. The market has seen a steady stream of interest from companies out of Oakland and San Francisco, while exhibiting healthy organic activity as well. As Bay Area commutes worsen and housing prices rise, decision makers are intent on seeking locations near BART and their employees, and the East Bay's booming residential scene offers more affordable options relative to major Bay Area markets.

Investment activity and relatively low Class A vacancy resulted in rent increases, as new owners have plans to make significant improvements to their projects. Growers Square was purchased by Rockwood Capital in March, trading for \$95.5 million, or \$495 PSF. Select tenants in core submarkets are experiencing "sticker-shock" as renewals are considered, causing a slight shift in demand towards the Shadelands or Concord where pricing is more affordable. On the other hand, some tenants are prioritizing location and access to amenities by downsizing or relocating within Downtown Walnut Creek.

Outlook

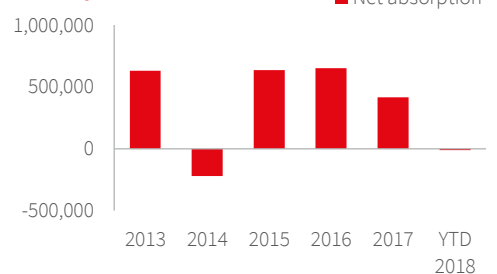
The outlook looks promising to both investors and tenants with a steady flow of organic and new demand, coupled with a booming residential market. The East Bay should continue to see growth in the midst of a tightening Bay Area office market.

For more information, contact: Katherine Billingsley | k.billingsley@am.jll.com

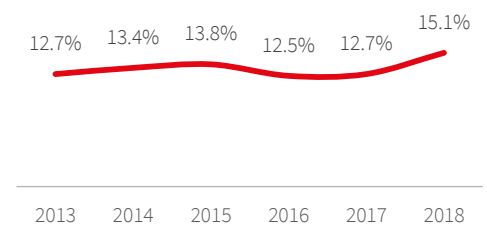
Fundamentals

YTD net absorption	-10,698 s.f.
Under construction	0 s.f.
Total vacancy	15.1%
Average asking rent (gross)	\$3.11 p.s.f.
Concessions	Falling

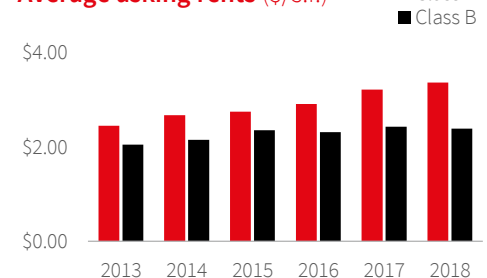
Supply and demand (s.f.)



Total vacancy



Average asking rents (\$/s.f.)





Stable market continues to be shadowed by large blocks of available space

- The vacancy rate of 23.9 percent continued to rise toward a five-year highpoint
- Net absorption numbers are skewed due to the removal of approximately 300,000 square feet of office inventory
- Large blocks of available space continue to headline the market

Since year-end 2015, Fairfield County's vacancy rate has fluctuated between 22.0 and 25.0 percent. It currently sits at 23.9 percent, 0.8 percentage points above 2017 year-end. Based on current market trends, expect vacancy rates to hover above 2017's fourth quarter number. While the first quarter's absorption total seems low at first glance, the total was negatively affected by the conversion of office space inventory into medical and educational uses.

Among some of the major deals that took place throughout the quarter were Computer Associates and Webster Bank each taking about 23,000 square feet at 200 Elm Street in Stamford. AQR Capital Management and Wells Fargo leased 41,000 and 10,000 square feet at 1 Greenwich Plaza and 1700 E Putnam Avenue respectively, in Greenwich.

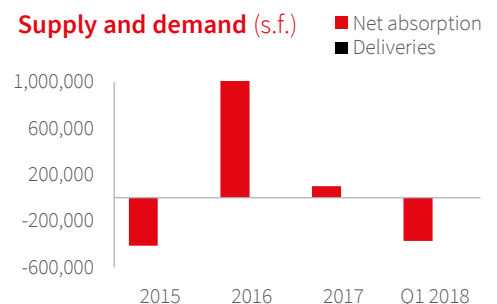
The market continues to be affected by large blocks of available space with more to follow. Charter Communications is expected to vacate 345,000 square feet of office space at 400 Atlantic Street in downtown Stamford in the near future. The cable services provider is will construct a new headquarters in the Harbor Point neighborhood starting late 2019. Although the space is not yet reported as vacant, adding another large chunk of available space could potentially have a notable impact on the Stamford market.

Outlook

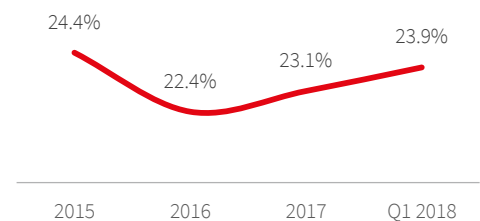
Due to the transitional market in terms of leasing activity, landlords are actively competing to attract companies currently looking for space in the market. Concession packages are expected to become more tenant favorable as the year progresses, while rental rates are expected to remain steady over the course of 2018. With that said, leasing activity is still expected to remain slow throughout the year.

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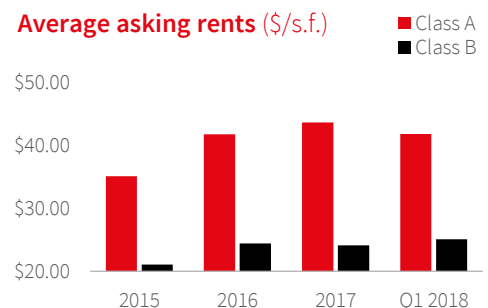
Fundamentals	Forecast
YTD net absorption	-374,025 s.f. ▲
Under construction	0 s.f. ►
Total vacancy	23.9% ▲
Average asking rent (gross)	\$36.55 p.s.f. ▼
Concessions	Rising ▲



Total vacancy



Average asking rents (\$/s.f.)





Fort Lauderdale

Developers gearing up for new construction even amidst a slow down in market trends

- Trends are shifting as the rate of growth has begun to slow, although it remains positive.
- Construction costs are rising alongside changing trends in office requirements, which is leading to an uptick in tenant improvement allowances.
- The development pipeline is growing with numerous large projects set to disrupt the market.

Broward County saw its strongest growth in terms of vacancy decline this cycle in 2016 – direct vacancy fell 240 basis points to 13.1 percent. Since then, over the past 15 months, vacancy has declined a total of 140 basis points to 11.7 percent. So, while the market continues to tighten, the pace of growth has clearly slowed.

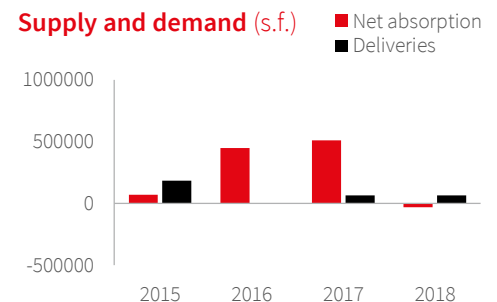
Alongside this trend, concession packages, specifically tenant improvement expenses, are growing. Construction costs have increased and the changing look of office space is making old space obsolete. Tenants are favoring more open space with glass walls and smaller interior offices. For example, in Downtown Fort Lauderdale, the top floor of 450 East Las Olas has sat vacant for the past year after being vacated by Huizenga Holdings. While the build-out was top-of-the-line at one time, the large offices would not appeal to many tenants touring the market today and the space has since been white boxed.

Outlook

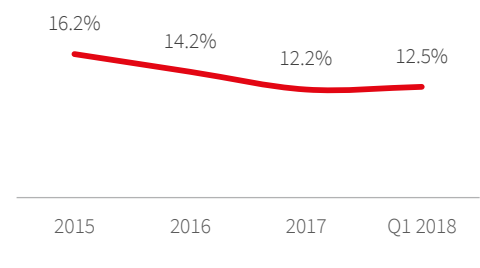
While the market appears to be leveling off there have been some major expansions and wins in the market. KEMET Corporation is growing its footprint in Downtown Fort Lauderdale by more than approximately 45,000 square feet (the company is relocating from Tower 101 to 1 East Broward) and Spaces recently leased 32,000 square feet in Las Olas Square, also Downtown. While these gains have yet to be realized, they should positively impact the market overall. Further, the development pipeline is swirling with activity as numerous developers appear to be making plans to break ground on major projects. This includes, but is not limited to, 201 East Las Olas and the 550 building in Downtown Fort Lauderdale, as well as The Edison in SW Broward. Additionally, Miramar Tech Center, a 56,700-square-foot building in SW Broward is currently under construction and expected to be delivered later this year. These projects are set to disrupt the market, which has only seen 307,000 total square feet delivered since 2008. Further, since much of the growth in the county comes from the organic growth of existing companies, these new buildings may thrive, however, they will likely leave holes in the older product when they leave that could prove difficult to lease up.

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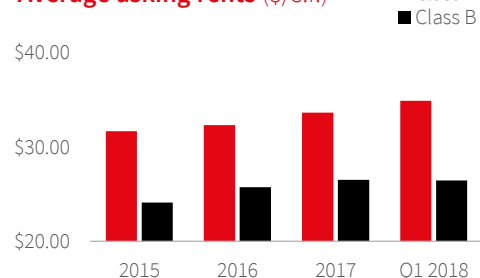
Fundamentals	Forecast
YTD net absorption	-30,100 s.f. ▲
Under construction	84,100 s.f. ▲
Total vacancy	12.5% ►
Average asking rent (gross)	\$31.45 p.s.f. ▲
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)





Grand Rapids

Rent growth plateaus as Grand Rapids office market stabilizes and awaits new supply

- Rent growth has slowed and low vacancies across the metro continue, as the market awaits new office deliveries.
- The burgeoning West Side of downtown remains a hot spot for tenants and development, offering an attractive alternative to downtown.
- New construction and renovations continue to ramp up, with multiple major developments underway downtown.

The Grand Rapids office market has continued its positive trend into the first quarter of 2018. Overall market vacancy is at 11.1 percent and the average asking rent is currently \$17.76 per square foot, a 7.6 percent increase year-over-year. Leasing activity was a little slower than seen in previous quarters, with no major deals taking place. A few moves of note include Honigman expanding their space at 300 Ottawa by moving to the fourth floor to occupy 10,000 square feet and Bodman moving into 99 Monroe after previously occupying Regus space. There is significant sublease availability in the downtown submarket compared to recent years, driven mostly by the increase in rents seen over the past few years, as well as a lack of parking, sending some tenants packing.

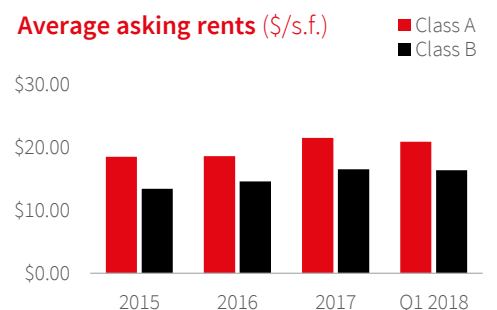
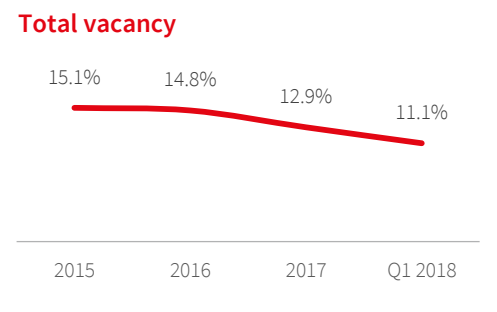
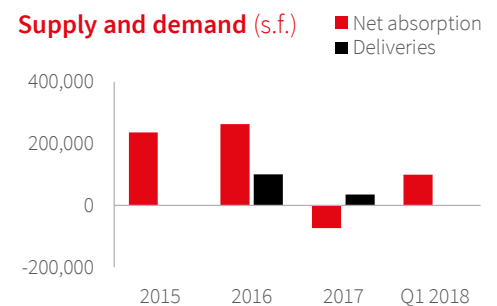
On the construction front, major renovations at the Blodgett Building at 15 Ionia are underway. Consumers Energy is planning to build a new \$20 million 40,000-square-foot headquarters set to deliver in 2020 at 501 Alabama Ave NW on the burgeoning west side of downtown. First Companies has picked up more land along the East Paris corridor for a potential medical office development. Site work has begun on the Studio Park development downtown, which is set to include 40,000 square feet of Class A office space, with groundbreaking expected next quarter.

Outlook

After a few years of steady growth, rents seems to have plateaued, while vacancies have stabilized. Conditions are likely to remain steady until the new Class A supply begins to deliver. With Warner Tower, the Meijer Development and now Studio Park, there is significant office development underway. The west side remains a hot market for both leasing and development activity, and we expect to see some tenants leaving downtown to explore opportunities in cheaper, trendier submarkets.

For more information, contact: Harrison West | harrison.west@am.jll.com

Fundamentals	Forecast
YTD net absorption	99,317 s.f. ▲
Under construction	174,000 s.f. ▲
Total vacancy	11.1% ►
Average asking rent (gross)	\$17.76 p.s.f. ►
Concessions	Stable ►





Hampton Roads

Despite a first-quarter pause, demand and activity continue to increase

- Although vacancy rose and absorption declined during the first quarter, a solid economy continues to drive demand.
- Sales pricing is steady for now, but signs of lower cap rates appear as investors look to secondary and tertiary markets for better yields.
- Rising local economic growth rates and higher defense spending should combine to raise demand in the upcoming year.

The rising absorption and declining vacancy rates of 2017 reversed slightly during the first quarter, with overall vacancy up 130 basis points and negative net absorption of almost 97,000 square feet. Both national and local economic indicators remain quite positive, however, suggesting that these results reflect a pause in the leasing market's momentum rather than an overall change in direction. Civilian employment is growing, cargo tonnage at the Port of Virginia sets new records most months, tourism revenues keep rising and local defense spending is projected to reach or exceed its 2011 peak.

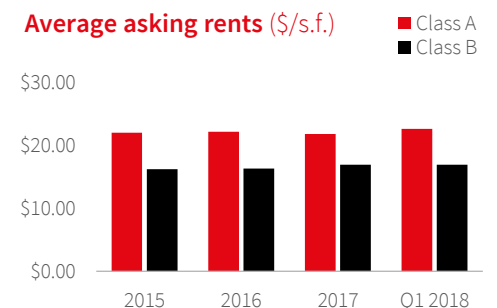
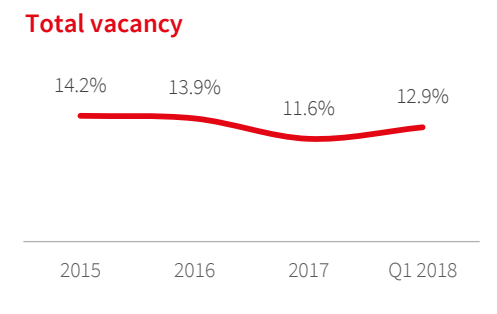
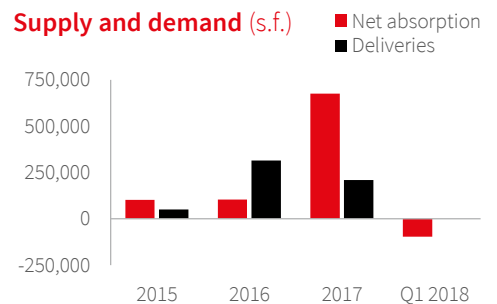
In general, non-medical office cap rates have remained steady over the past year, but there was a hint of decline in a couple of smaller building sales in the first quarter. Despite recent increases, interest rates remain low, and yields remain well above what primary office markets offer. As investor attention shifts to secondary and tertiary markets due to primary market price inflation, Hampton Roads should see more interest and higher sale prices.

Outlook

As a recent *Washington Post* article stated, "It's a good time to be a defense contractor." Adoption of a two-year budget agreement with significant increases in discretionary defense spending is good news for the shipyards, subsystems manufacturers and other contractors throughout the region. Statistics do not yet reflect this demand, but brokers report that contractors are touring more and requesting longer lease terms than the year-to-year contracts they required during sequestration. This is especially important for Peninsula submarkets, where relocation of government-leased space back on base coupled with contractor reductions has driven vacancy rates above historic norms.

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Fundamentals	Forecast
YTD net absorption	-96,703 s.f. ▲
Under construction	379,600 s.f. ►
Total vacancy	12.9% ▼
Average asking rent (gross)	\$19.70 p.s.f. ▲
Concessions	Stable ►





Houston

Continued oversupply of space looms as tenant concessions reach their peak

- After rising steadily over the past three years, concessions such as free rent and tenant improvement allowances have begun to plateau, yet remain at elevated levels.
- Sluggish tenant demand to start the year pushes vacancy up to 23.8%, which represents the thirteenth consecutive quarter of rising vacancy.
- The Galleria submarket was one of the few bright spots in Q1, where fundamentals showed improvement.

Since the fourth quarter of 2014, the Houston office market has been characterized by rising vacancy rates, flattening asking rents, growing concession packages, and a glut of sublease space. While vacancy rates and asking rents maintained these trajectories through the first quarter of 2018, concessions appear to be leveling off as more tenants engage the market to take advantage of favorable lease terms. Free rent in the neighborhood of 12 to 15 months on a ten-year deal are not uncommon for Class A space as well as tenant improvement allowances north of \$50.00 per s.f.. However, such generous concession packages will not remain indefinitely, particularly as the development pipeline tapers off, sublease space is absorbed, and the newest, most efficient space is leased.

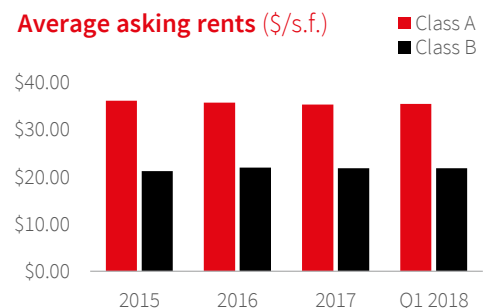
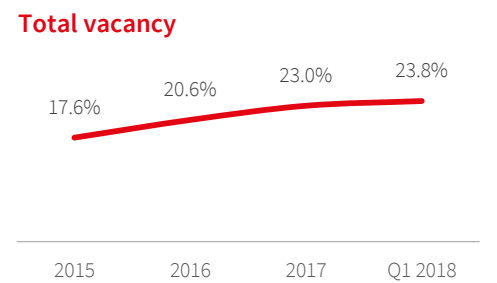
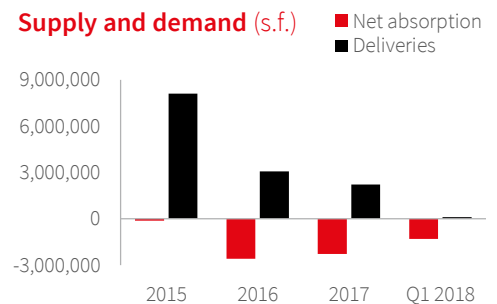
Despite the continued uptick in vacancy, lack of growth in asking rents, and oversupply of sublease space across the market, there was one submarket that bucked each of the aforementioned trends. The Galleria was the only submarket in Houston to experience a decrease in vacancy, an increase in asking rents, and a decrease in sublease space. Additionally, leasing activity in the submarket improved by nearly 60.0% quarter-over-quarter, thanks to Apache's 515,000 s.f. renewal at Post Oak Central and several full-floor deals.

Outlook

Although there are signs of improving market conditions ahead as seen by flattening concession packages and strong performance in some areas in the first quarter, the Houston office market has a long way to go before it returns to a balanced market. As such, we expect market conditions to continue to favor tenants through the remainder of 2018 as leasing activity remains muted and the market absorbs the oversupply of space which has pushed vacancy from 14.9% in YE 2014 to 23.8% in Q1 2018.

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Fundamentals	Forecast
YTD net absorption	-1,288,450 s.f. ▲
Under construction	1,654,682 s.f. ►
Total vacancy	23.8% ►
Average asking rent (gross)	\$30.80 p.s.f. ▲
Concessions	Stable ►





Indianapolis

After a slow end to 2017, Indianapolis starts the new year off strong

- Nearly all Indianapolis submarkets posted occupancy growth to start off 2018. This is the most growth in a single quarter since Q2 2016.
- Five sales occurred, two of which involved investors new to the Indianapolis office market.
- The market is in position to continue growing this year, but upcoming vacancies could limit growth in the long term.

The Indianapolis office market started off 2018 with a bang. The metro posted 170,000 square feet of net absorption, the highest amount of growth in a single quarter in almost two years. All of the five major submarkets had positive absorption, with the Northeast leading the way with 88,000 square feet. Thanks to this growth, the vacancy rate dropped by 40 basis points in the last three months.

Indianapolis continues to draw investors as five sales occurred this quarter. The top two featured buyers new to the Indianapolis office market. BMO Plaza was sold to Black Salmon Capital and Redico LLC. This is the fifth Skyline property to trade hands in the past two years. Two and Three Meridian Plaza was purchased by DRA Advisors and M & J Wilkow. This continues a streak of office parks hitting the market, with more to follow in the coming weeks.

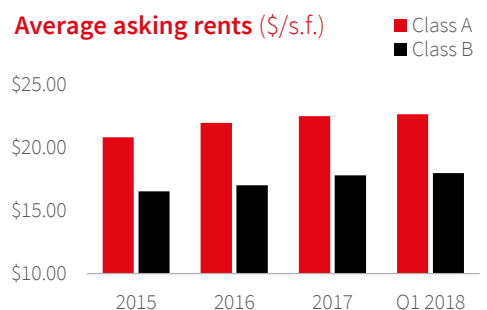
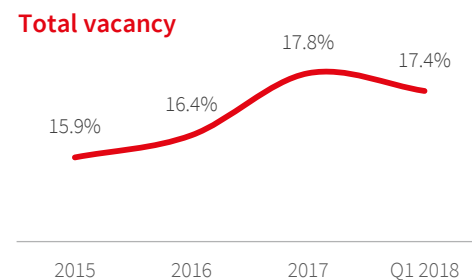
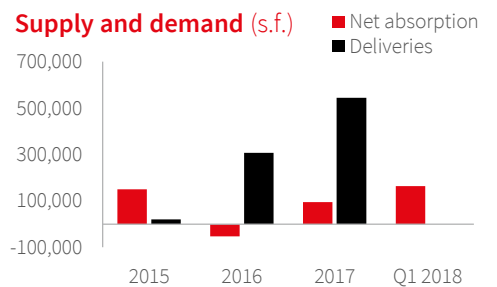
The upward trend of growing rental rates is continuing this year, rising by 1.4 percent in the past 12 months. New ownership and new construction is still pushing up rates, with some buildings nearing the \$30 per square foot mark.

Outlook

Indy is in position to maintain growth this year. The market will get a boost when several new leases occupy next quarter. Additionally, 2.1 million square feet of active requirements are looking for new office space. However, several large tenants are vacating in 2019. Anthem announced it will move out of its long-term headquarters on Monument Circle. KAR Auction services will be leaving its building in Hamilton Crossing for a new built-to-suit headquarters just a few blocks south along Meridian Street. Still, as we experienced last year, these large blocks present opportunities for tenants to locate in historically-constrained areas like Monument Circle and the Meridian corridor.

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 Brianna Marshall | brianna.marshall@am.jll.com

Fundamentals	Forecast
YTD net absorption	168,279 s.f. ▶
Under construction	80,000 ▲
Total vacancy	17.4% ▶
Average asking rent (gross)	\$20.33 p.s.f. ▲
Concessions	Stable ▶





Jacksonville

Multiple shifts across the market, as large users signal interest in new development

- New development becomes a popular option for large users, despite large availabilities.
- Two large deals done downtown, sparking landlord interest.
- Large availabilities open up in the suburbs, as multiple parties look to exit.

Jacksonville is seeing an unusual turn in development activity. VanTrust decided to build a 160,000 square foot speculative office building on Gate Parkway in 2017, despite multiple large availabilities on the market. Availability leased most of the development shortly after breaking ground. Now, McKesson and Web.com have each signed BTS deals for 125,000 square feet and 220,000 square feet, respectively, and are expected to break ground in Q1 and Q2 2018. These three projects are all occurring near the St. John's Town Center at the JTB/295 intersection, a prime office submarket.

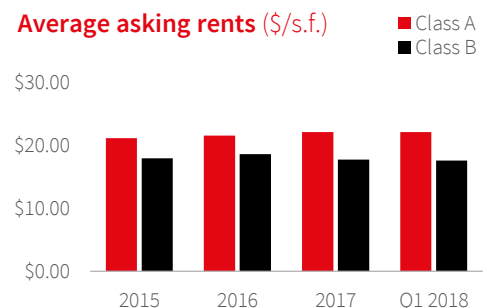
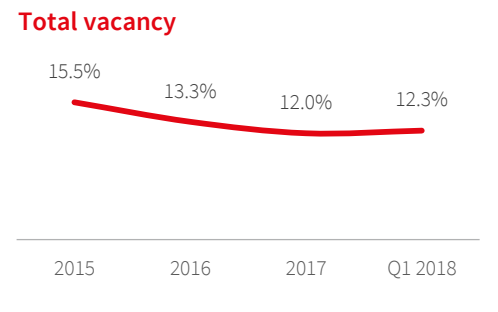
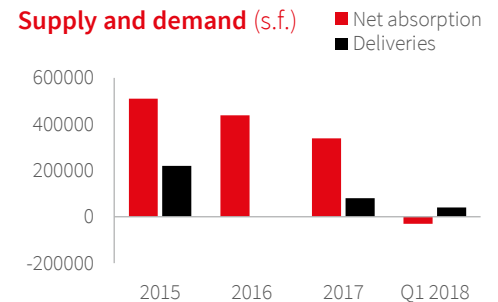
Downtown Jacksonville has multiple large blocks of space available, proving tenant leverage in negotiations. Two large tenants downtown just signed deals, Landrum Brown and Smith, Hulsey & Busey. Landrum signed a lease to move into the top floor of the Bank of America Tower, while Smith, Hulsey & Busey is expected to move to Wells Fargo Center in Q2 2018. Law Firms such as Smith, Hulsey & Busey are prominent users on the Jacksonville Northbank, due to the proximity of the Federal and State Courthouses.

Additionally, several large availabilities have opened up in the suburbs. CSX has moved out of 56,460 square feet in Parkway Place in order to sublet, while Art Institute has closed, leaving 47,454 square feet available within Deerwood Center. Fanatics has also left Southpoint Parkway Center, leaving 49,299 square feet vacant. These shifts have contributed to the substantial negative net absorption reported in the Butler Corridor this quarter.

Outlook

The outlook for Jacksonville is positive. The next three years will each have about 600,000 square feet of lease roll, providing consistent demand into the market. Many of the large negative shifts are from a few players changing business plans, such as CSX.

Fundamentals	Forecast
YTD net absorption	-30,084 s.f. ▼
Under construction	423,700 s.f. ▲
Total vacancy	12.3% ►
Average asking rent (gross)	\$20.00 p.s.f. ▲
Concessions	Stable ►





Long Island

Leasing activity more than doubles since year-end 2017

- Central Nassau attracted the most leasing activity for the third consecutive quarter, capturing nearly half of the top transactions.
- Suffolk County recorded 19,000 square feet of positive net absorption, which was driven by large occupancy gains in Western Suffolk.
- Western Nassau achieved a record low vacancy rate in the first quarter, of 4.4 percent.

The expanding presence of the healthcare sector, driven by aging demographics, continued to shape the Long Island office market. Leasing of large blocks soared in the first quarter after more than 600,000 square feet was absorbed in 2017. This growth was a product of the healthcare sector dominance in Western Nassau, where the historic low Class A vacancy rate of 2.8 percent pushed tenants to seek large block opportunities elsewhere throughout Nassau and Suffolk counties. Leasing activity consisting of deals in excess of 20,000 square feet more than doubled from last quarter, totaling nearly 300,000 square feet. Capturing 46.0 percent of this total was the Central Nassau submarket, where NYU Winthrop Hospital's leasing of 77,000 square feet at 211 Station Road in Mineola marked the largest deal of the quarter.

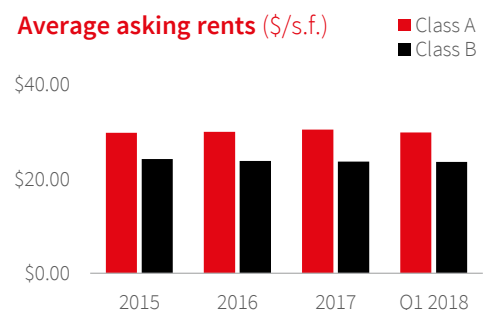
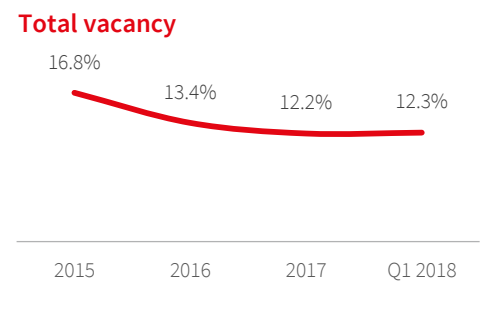
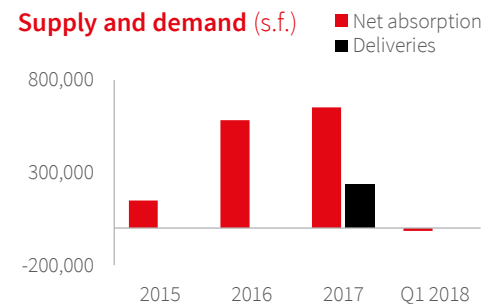
The trend of medical tenants being the primary driver of demand continued as Catholic Health Services of Long Island took nearly 36,000 square feet at 3 Huntington Quadrangle, and Professional Physical Therapy took 30,000 square feet at 576 Broadhollow Road in Melville. Moreover, Northwell Health is in contract to purchase the former Astoria Bank headquarters at 1 Marcus Ave in Lake Success.

Outlook

Despite heightened demand, vacancy rates and net absorption levels remained stable since year-end 2017 due to limited large block availability. However, large blocks of space entering the Melville market in 2018 are expected to ease supply-side pressures and thus allow for an increase in absorption. As local private sector employment growth increases year-over-year, we will continue to see a trend of financial services tenants looking to expand their back-office operations. Among these this quarter was Sterling National Bank, which expanded 56,128 square feet at 1 Jericho Plaza in Jericho.

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Fundamentals	Forecast
YTD net absorption	-14,862 s.f. ▲
Under construction	0 s.f. ►
Total vacancy	12.3% ▼
Average asking rent (gross)	\$26.02 p.s.f. ▲
Concessions	Falling ▼





Los Angeles

Market keeps churning as key industries collide

- Culver City and Playa Vista become the nexus for the connection of tech and media
- The coworking continues to expand rapidly across the region and now encompasses 3.2 million s.f.
- Current M&A activity in entertainment could result in excess office product

The intermingling of entertainment and technology has produced a handful of new players. Traditional technology companies like Apple, Amazon and Google are expanding their presence regionally as they continue to elevate their standings as content creators. By 2020, these three companies' combined presence will account for over 1 million square feet of office and studio space. Culver City has become the market of choice for this most recent expansion, though Google's future move-in to Playa Vista may bring life back to a market that has recently turned sleepy. The presence of a talented workforce and high-cost of doing business in the Bay Area are often cited as reasons for Silicon Beach's increasing prominence on the tech scene.

The growth of shared workspace continues to impact every submarket in Los Angeles. However, recent new entrants have targeted the entertainment and tech-dense submarkets of Westside and Hollywood. Connecticut-based Working Well Win is anticipated to take the top two floors at the former Barnes & Noble on Third Street in Santa Monica. New York-based Serendipity Labs established its first Los Angeles location, signing for 36,000 square feet in Hollywood. These new names are taking space as WeWork expands its LA footprint, currently with 15 locations throughout the market. These shared workspaces are incubating the next generation of companies, which will eventually grow into established enterprises, spurring future demand for conventional office locally.

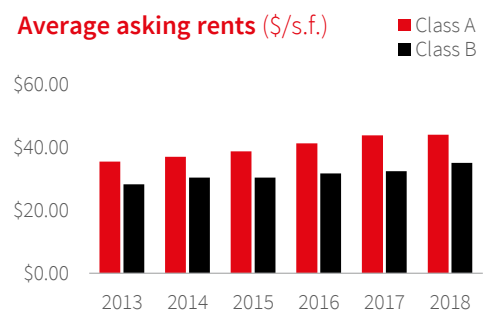
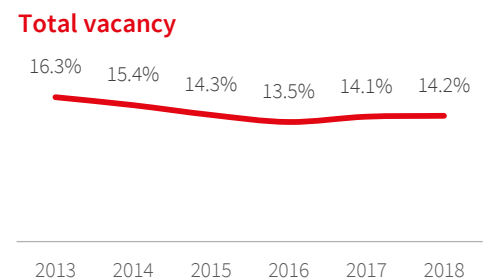
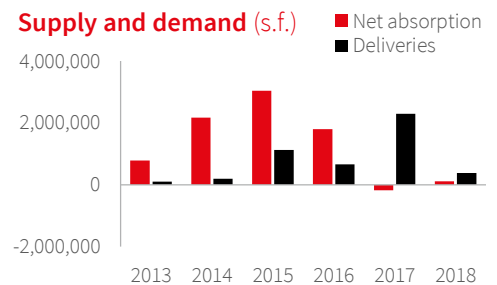
Outlook

With large media and entertainment mergers playing out simultaneously, the entertainment landscape will change. CBS and Viacom are inching closer to a merger. And while not expected to close until later in the year, Disney has announced its plans to acquire 21st Century Fox. All of these companies have a large presence regionally, and the potential for consolidation could create long-term real estate implications for the Westside, Tri-Cities and Hollywood markets.

For more information, contact:

Henry Gjestrum henry.gjestrum@am.com or Devon Parry devon.parry@am.jll.com

Fundamentals	Forecast
YTD net absorption	112,692 s.f. ▲
Under construction	2,159,259 ▲
Total vacancy	14.2% ►
Average asking rent (gross)	\$41.40 p.s.f. ▲
Concessions	Falling ▼





Louisville

Office development, leasing remain steady

- 500 W. Jefferson, formerly known as PNC Plaza, has gone into receivership as over 30 percent of the building remains vacant.
- Miami-based SF Partners entered the Louisville market with the purchase of two office buildings totaling 126,000 square feet in Bluegrass Commerce Park.
- Over 600,000 square feet of suburban office space construction has been announced with expected deliveries in the 2019/2020 period.

Leasing within the Central Business District remained steady as overall vacancy hovered at 11.4 percent. Full floors are available in Class A buildings throughout downtown, which provides a unique opportunity for potential users looking to relocate or grow within the downtown core. Leasing in the suburban markets slowed this quarter. The largest lease of the quarter was PharMerica's renewal and expansion into 85,000 square feet at 9901 Campus Place.

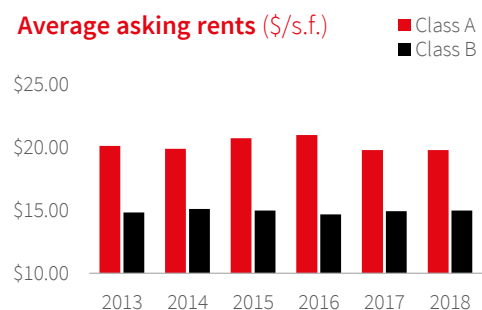
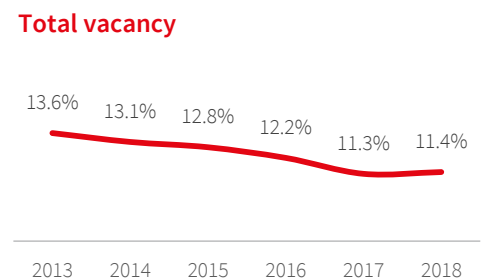
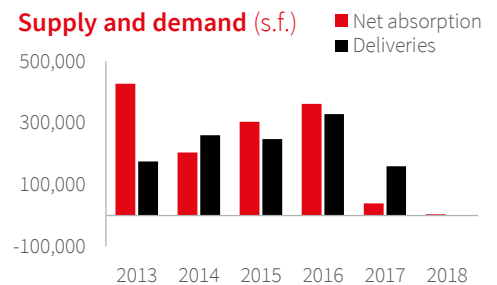
The recent announcement that 500 W. Jefferson has gone into receivership adds an element of uncertainty to the downtown market. Approximately 30 percent of the 556,000-square-foot tower remains empty following PNC vacating over 150,000 square feet in 2017. Because of its current financial situation, the building may go to auction. Several large tenants have current leases; however, due to the uncertainty shrouding the building, and the open spaces in other towers, it is expected many of those tenants will be reevaluating their options.

Fenley Real Estate announced plans to develop two 126,000-square-foot buildings in the city's growing Eastern suburban market. Both buildings will be four-stories and have floor plates of 31,500-square-feet. Across the new East End bridge in Southern Indiana it was announced that Hollenbach-Oakley will lead the development for River Ridge Commerce Center. Thus far the Commerce Center has been predominantly industrial space. The level of demand for office space is still unknown.

Outlook

Office leasing was slow in the first quarter of 2018; however, we remain optimistic for both the CBD and suburban markets for the balance of 2018. Development of hotel, residential, and retail within the CBD continued at an unprecedented pace during the first quarter, creating excitement in the marketplace. As the CBD grows, we expect companies will continue to look to the downtown market for space. The suburban market will see over 600,000-square-feet of Class A space come online in 2019 and 2020.

Fundamentals	Forecast
YTD net absorption	4,214s.f. ▲
Under construction	618,810 s.f. ▲
Total vacancy	11.4% ▼
Average asking rent (gross)	\$17.63 p.s.f. ▲
Concessions	Rising ▲





Marin/Sonoma

Tenants experience “sticker shock” on rents as competition for space increases

- The Marin-Sonoma office market is off to a solid start in 2018. Post-fire recovery efforts continue to gain momentum in recent months, resulting in an inflow of contractors and engineers in as well as an increase in touring activity within the healthcare and wine industries.
- Tenants are being priced out of Southern Marin County as high watermark deals are closing between \$4.00 p.s.f. and \$5.50 p.s.f. full service.

In Sonoma County, rental rates have increased as a result of increasing demand. Average asking rates are climbing above the market average of \$1.83 PSF, where select landlords are commanding around \$1.97 p.s.f. in Petaluma and as high as \$2.35 p.s.f. in Santa Rosa, fully serviced. Sonoma County total vacancy currently sits at 8.6 percent, but a recent 24,000-square-foot, full floor availability at 1400 N. McDowell Boulevard in Petaluma will provide plug-and-play options for larger users in the market.

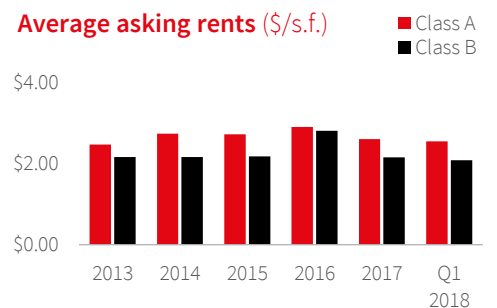
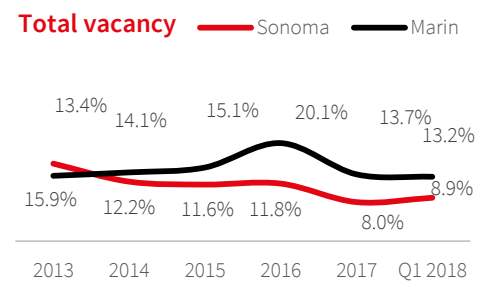
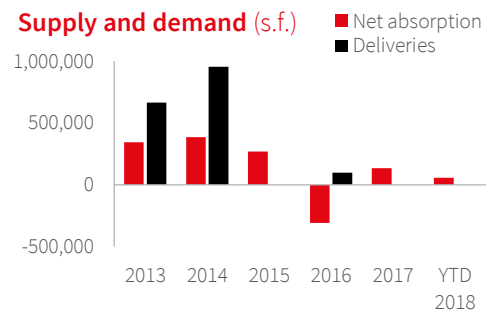
Investment activity is on the upswing in Marin County, kicking off the year with a high watermark sale at 899 Northgate Drive for \$18.9 million, or \$343 PSF, 40.0 percent higher than when it was last sold in 2015. Additionally, 75-78 Rowland Way is on the market for sale, currently at 82.0 percent leased. Robust touring activity in the biotech, healthcare, and tourism sectors have encouraged landlords to raise their rents in select office parks. Vacancy rates in Southern Marin are below the historical average, hovering around 6.0 percent overall. Landlords are capitalizing on value-add opportunities by making significant improvements to their projects. New spec suites and common-area upgrades are among these improvements, creating an inviting advantage for tenants. As a result, average asking rents are on the rise, approaching \$4.85 p.s.f. to \$5.50 p.s.f. in the market’s top tier office buildings. Tenants who are contemplating renewals are experiencing “sticker-shock”, due to new landlords pushing rents and chasing yields with a higher project basis. Tenant demand remains strong which is also fueling the rising rates.

Outlook

The Marin/Sonoma office market should continue to see growth with a rise of buyers in the area, and stabilized occupancies in value-add buildings. With no new office construction underway, and top tier properties substantially leased, the market is likely to strengthen further throughout 2018.

For more information, contact: Katherine Billingsley | k.billingsley@am.jll.com

Fundamentals	Forecast
YTD net absorption	56,091 s.f. ▲
Under construction	0 s.f. ►
Total vacancy	10.7% ▼
Average asking rent (gross)	\$2.31 p.s.f. ▲
Concessions	Stable ►





Quiet start to 2018 marked by a move toward quality office space

- Positive net absorption in Class A assets are largely mirrored by negative net absorption in the Class B segment of the market
- For the third quarter in a row more sublets are being vacated than occupied, signaling a growing supply of economical space in the market
- After delivery of MiamiCentral, locus of supply will shift to suburban and emerging markets such as Coral Gables, Coconut Grove and Wynwood

While overall net absorption was modest, the first quarter of 2018 was above all else marked by a shift toward quality office space. Most net absorption gains in Class A assets were largely mirrored by losses in the Class B segment of the market, especially in suburban markets. Coral Gables and Miami Airport saw Class A vacancy decline 100 and 130 basis points respectively, while Class B vacancy increased by 130 points in the Gables and 70 points around the Airport.

Similarly, more sublet space was vacated than occupied throughout the first quarter of 2018—a trend set in motion in early 2017. The only exception to this trend was Brickell, where subleases remained an attractive alternative. This is most likely attributable to tenants' search for cost-effective options in a submarket that continues to demand high premiums for direct, Class A office space. As it is, Class A direct asking rents in Brickell average \$52.33 per square foot, compared to \$32.15 for Class B sublets—a \$20.18 difference.

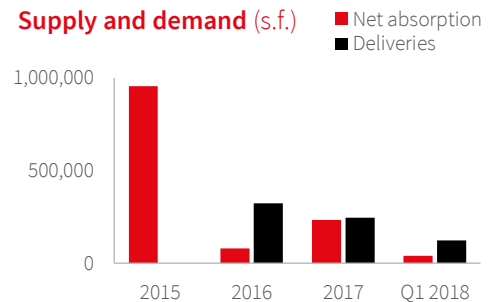
Outlook

Going forward, tenants may continue to opt for higher quality office space, especially since new Class A office product will continue to hit the market. However, after the delivery of Two MiamiCentral, scheduled for June of 2018, new office supply will shift to suburban and emerging markets. In the first weeks of Q2 2018, Sunset Office Center will deliver over 60,000 SF in Coral Gables (70% pre-leased), followed by Giralda Place in the Gables (Q2), Mary Street in Coconut Grove (Q4) and the CUBE Wynwd in Wynwood (also Q4).

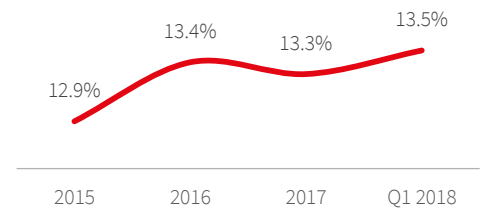
While rents remain stable throughout the market, high vacancy in Downtown continues to put a cap on rent growth north of the Miami river, creating opportunities for high-quality, cost-effective options for tenants looking to stay in—or move to—the CBD.

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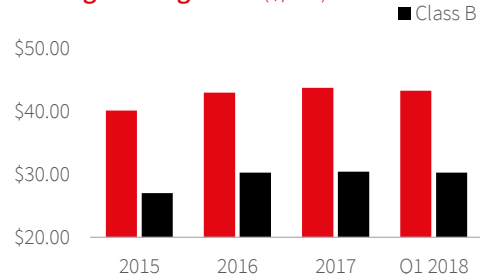
Fundamentals	Forecast
YTD net absorption	40,355 s.f. ▲
Under construction	634,662 s.f. ►
Total vacancy	13.5% ▼
Average asking rent (gross)	\$37.65 p.s.f. ►
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)





Milwaukee

Construction boom continues as market stabilizes

- Negative year-to-date absorption mainly a function of increased mergers in financial and legal services
- High number of renewals and expansions drives leasing activity this quarter
- While asking rates remain somewhat stable, concessions rise as competition increases among landlords due to the addition of new office product

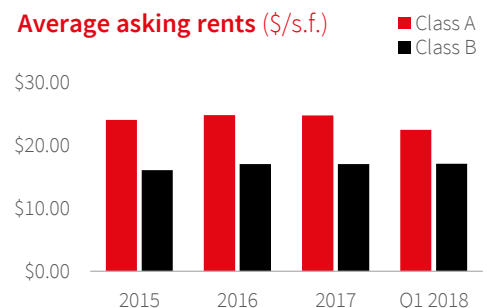
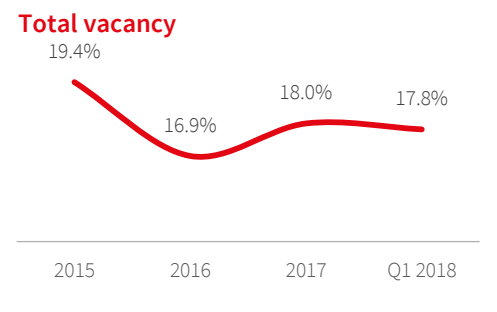
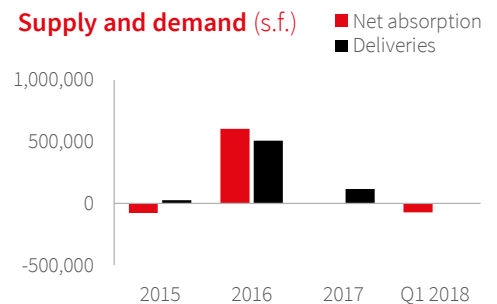
Financial and legal services firms drive leasing activity as this quarter's largest deals come from tenants in these industries. While the market appears to be on a downward swing due to negative absorption figures and few new to market leases, firms like Associated Bank, von Briesen & Roper, and Davis & Kuelthau have completed opportunistic acquisitions in efforts to enhance their market share. These firms have contributed to the high number of expansions and renewals that dominate leasing activity this quarter. As a large number of tenants decide to renew in lieu of relocation, they benefit from a growing concession package from landlords who are weary of the increased office product downtown and more deliveries on the horizon - TI allowances have fallen due to lessened tenant need and rent abatement offerings have steadily grown.

Outlook

The rest of 2018 looks bright for Milwaukee's office market. The Hammes Headquarters building and The Factory Office Suites are two large development projects that will add roughly 250,000 square feet in Class A office product to the downtown area over the next two quarters. These two deliveries, along with many more large projects past 2018, will have a lasting impact on the Milwaukee market in terms of increased competition among landlords and leverage shifting in favor of tenants. The greatest impact these new developments will have is that they will continue to spur tenant migration from suburban markets to the downtown area. An increasing number of firms are moving to match the growing multifamily product downtown. Milwaukee is experiencing a resurgence in its city center as infrastructure investment and an increasing downtown millennial population have made it a desirable location for firms to move their offices to and reap the benefits of high density economic activity.

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Fundamentals	Forecast
YTD net absorption	-71,792 s.f. ▲
Under construction	633,087 s.f. ►
Total vacancy	17.8% ►
Average asking rent (gross)	\$19.51 p.s.f. ►
Concessions	Rising ▲





Minneapolis- St. Paul

Between sales, leasing, and construction, 2018 is off to a record-breaking start

- Major investor turnover in CBD: 330 South Second, Marquette Plaza, and Capella Tower change hands.
- United Properties' Gateway Block will be the first new multi-tenant office construction in the CBD Core since 2001.
- Consolidations are driving a substantial share of suburban activity. U.S. Bank moves into one of three Excelsior Crossings buildings this quarter.

The Minneapolis CBD experienced \$363.4 million in sales this quarter, the largest quarterly transaction volume in over a decade. Government Properties Income Trust sold 330 South Second for \$20 million to Spaulding & Slye. Marquette Plaza sold to KBS Growth & Income REIT for \$88.4 million. And in the largest deal year-to-date, Shorenstein purchased Capella Tower for \$255 million. After this acquisition, Shorenstein is now the single largest holder of office real estate in Minneapolis-St. Paul, with holdings of approximately 2.6 million square feet.

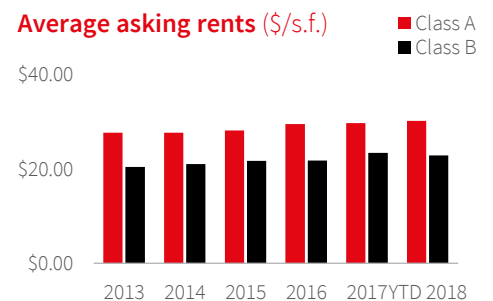
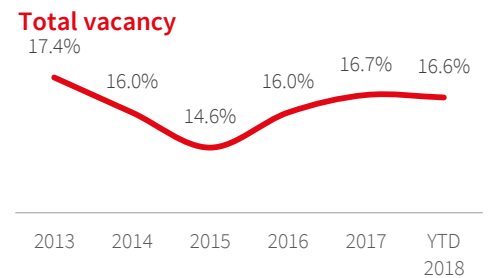
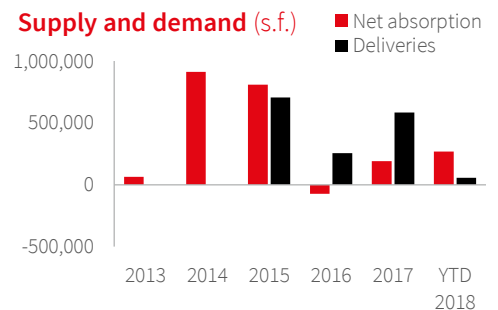
Leasing activity has also been record-breaking in the first quarter of 2018. The Royal Bank of Canada (RBC) signed a lease for the future Gateway Block for over 300,000 square feet. Although the City of Minneapolis currently owns the site across from the Minneapolis Central Library, United Properties has exclusive purchasing rights that will likely be executed by the end of 2018. UP's plans for the block include a tower consisting of office, hotel, and condos—a mixed-use development that is unusual for this market and attracting a lot of attention.

Financial services firms are particularly active right now. Thrivent Financial is also looking to design its own ground-up office development in the parking lot adjacent to its headquarters. Meanwhile, U.S. Bank consolidated its home mortgage division into nearly 260,000 square feet at Excelsior Crossings in Hopkins after taking over Cargill's terminated lease in early March.

Outlook

Aggregation of employees and the rightsizing footprints is trending in both in urban and suburban locations. The aforementioned activity follows the heels of Prime Therapeutics' consolidation in Eagan last year and Wells Fargo's 2016 consolidation in its East Town towers. Backfilling RBC Tower and U.S. Bank's vacated 1550 American Boulevard office will present its own challenges, yet with millions of square feet of active users in the market there is sure to be demand.

Fundamentals	Forecast
YTD net absorption	268,191 s.f. ▲
Under development	1,608,973s.f. ►
Total vacancy	16.6% ▼
Average asking rent (gross)	\$26.33 p.s.f. ▲
Concessions	Stable ►



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Napa/Solano

Tightening markets cause a shift in demand, benefiting tertiary submarkets

- Tenants continue to explore additional options in North Napa and Solano County as Downtown Napa vacancy hovers around 3.0 percent.
- New hotel and retail amenities in downtown Napa make the area attractive to office users.

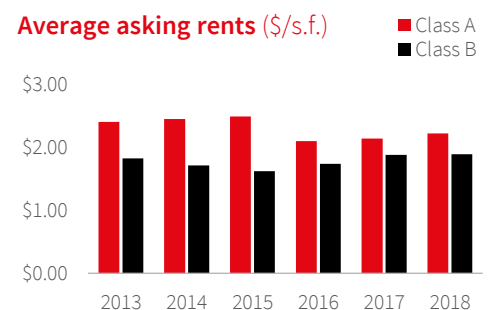
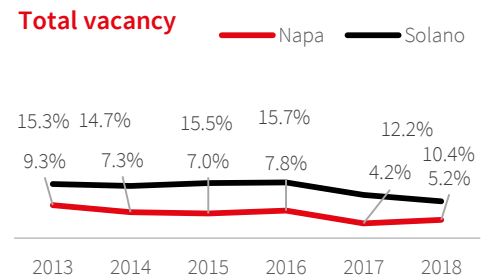
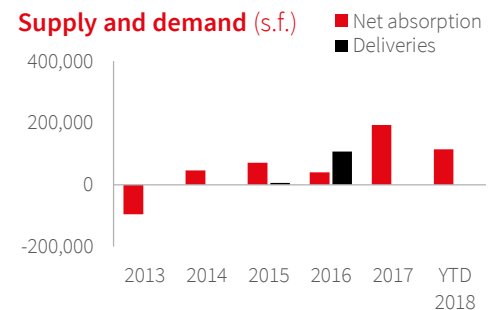
Napa/Solano Counties had a relatively strong start to the new year as vacancy rates dipped slightly and rents increased in select markets. Class A product is limited in Downtown Napa due to repositioning of assets into retail or mixed-use. Downtown Napa is the tightest submarket in the area at just 3.3 percent, and rents ranging from \$3.50-\$4.00 per square foot in select buildings. In turn demand has shifted to North Napa and other surrounding markets. Quality office space above 5,000 square feet is limited, creating a challenge for larger users touring the market. Notable deals this quarter include Trinitas Cellars at Napa Valley Commons and Morgan Stanley's renewal at 700 Main Street, leasing 6,500 square feet and 8,400 square feet, respectively.

In Solano County, construction is near completion at Partnership Healthplan's 104,000 square-foot Class A office project in Fairfield, set to deliver next quarter. The company is expanding into two floors and will release the remaining full floor to the market, in which medical-related tenants are actively touring. Meanwhile, Kaiser Permanente purchased 520 Chadbourne Road with plans to occupy later this year, sweeping 34,000 square feet off the market. Additionally, The Wiseman Company purchased 5140 Business Center Drive. The 31,819-square-foot medical office project is vacant and is available for multi-tenant use.

Outlook

The Napa-Solano office market could tighten further in 2018. The ongoing construction of additional local amenities can be expected to add appeal and value to the area, positioning the area as a viable overflow market as surrounding Bay Area markets tighten. The largest of these mixed-use re-development projects is First Street Napa, which includes the new Archer Hotel, a five-story, 183-room project, and anchor a mixed use development of 40 shops and restaurants in Napa Valley.

Fundamentals	Forecast
YTD net absorption	114,413 s.f. ▲
Under construction	104,000 s.f. ►
Total vacancy	8.8% ▼
Average asking rent (gross)	\$2.10 p.s.f. ▲
Concessions	Stable ►



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Nashville

Nashville's office tenants continue to leave Class B in droves for Class A

- Large blocks of space are being vacated in Airport North and Brentwood, which is leading to increased vacancy.
- Occupiers continue to strongly prefer Class A product, with 322,065 square feet of positive net absorption in that segment.
- Class B product continues slide, with negative net absorption of 395,371 square feet in Q1 2018.

Occupiers of Nashville's office market are seeking out higher-quality and more efficient office product. A great example of this trend is Hines' 222 2nd Avenue South building downtown. Firms are beginning to seek true trophy buildings in an effort to retain talent. The war for talent is heating up, and investors in Class A assets are reaping the rewards. For the third time in a five-month period, Music City has the lowest reported unemployment rate of any of the nation's large metro areas, closing February at 2.7 percent. Combine that with an estimated 94 people moving to Nashville per day, you've got a robust labor market that is pushing employers to provide high-quality office space and amenities that can help attract and retain talent.

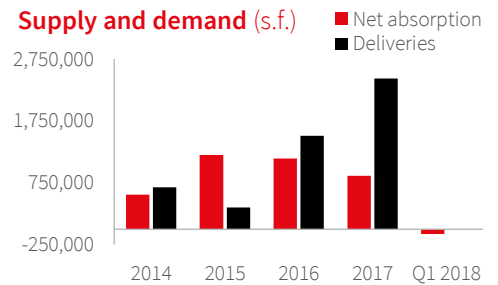
Vacancy sharply increased during the first quarter, driven by large availabilities in the Airport North submarket and a large move out by HCA in Brentwood. Multiple firms bought their office space from their landlord this quarter. Notable transactions included Caterpillar's acquisition of their 312,000-square-foot hub in Midtown, and Jackson National Life Insurance's acquisition of their 164,000-square-foot Cool Springs corporate headquarters.

Outlook

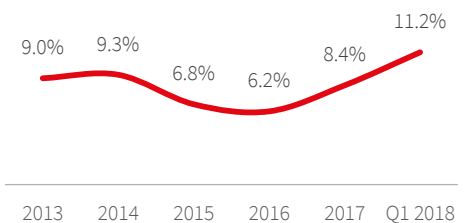
Rental rates remained firm in the first quarter, but occupiers and investors should be on the lookout for the Metro's average asking rates to increase when nearly all of our current under construction inventory delivers in the remainder 2018 and in 2019. The rise in vacancy this quarter should not be a concern for landlords yet, as nearly all the newly available space can be attributed to occupiers moving to their firm's own product or vacating older space for newer product. Wage, population and job growth all remain strong and point to a healthy late-cycle economy in Music City.

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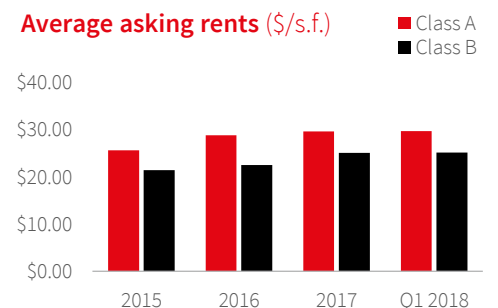
Fundamentals	Forecast
YTD net absorption	-77,463 s.f. ▲
Under construction (new)	1,954,709 s.f. ▼
Total vacancy	11.2% ►
Average asking rent (gross)	\$27.27 s.f. ▲
Concessions	Rising ▲



Total vacancy



Average asking rents (\$/s.f.)





New Jersey

Office conversions reduce inventory and pull vacancy lower in early 2018

- Leasing velocity remained constrained as just over 1.3 million square feet of leases were completed during the first quarter
- Overall vacancy rate slipped below 24.0 percent as 1.7 million square feet of former office buildings removed from the inventory in early 2018
- An uptick in office tenant requirements could translate into accelerating demand in the coming quarters

The vast shadow cast by diminished leasing volume over the Northern and Central New Jersey office market in 2017 continued into the first quarter of 2018. Slightly more than 1.3 million square feet of leases were completed during the first three months of 2018, which represented a 40.0 percent decline in activity from the same timeframe one year ago. Furthermore, most of the demand witnessed during the past year was generated by smaller-sized leases. This was evident during the first quarter by the lack of completed transactions larger than 100,000 square feet in size.

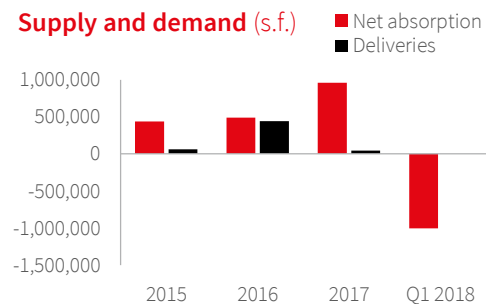
Against the backdrop of the downshifting demand, the Northern and Central New Jersey overall office vacancy rate slipped 20 basis points from year-end 2017 to 23.9 percent in the first quarter. The overall vacancy rate had not been below 24.0 percent since early 2009. The removal of 1.7 million square feet of office product from the inventory base contributed to this decline. These former office buildings are on the road to being razed or converted to alternative uses. Most this supply was housed in the Parsippany submarket, where the overall vacancy rate retreated from 34.2 percent at the end of 2017 to less than 32.0 percent. Among the largest facilities taken out of the Parsippany inventory were two buildings totaling nearly 290,000 square feet at 1515 Route 10. The buildings are expected to be demolished to make way for a new mixed-use project planned by Stanbery Development.

Outlook

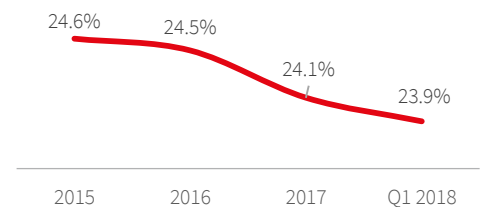
A recent uptick in touring activity combined with additional tenant requirements in the Northern and Central New Jersey office market could signal that demand will shift out of neutral gear in the coming quarters. Nearly 5.0 million square feet of requirements were navigating the office market in early 2018. Furthermore, there were nearly 20 requirements for space in excess of 100,000 square feet compared to 12 requirements one year ago.

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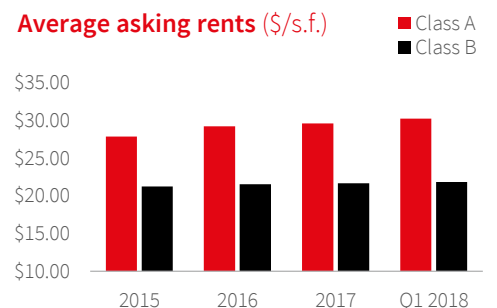
Fundamentals	Forecast
YTD net absorption	-1,001,942 s.f. ▲
Under construction	447,732 s.f. ►
Total vacancy	23.9% ▼
Average asking rent (gross)	\$27.31 p.s.f. ▲
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)





New York City

2018 is off to an auspicious start following major announcements by JPMorgan Chase and Google

- JPMorgan Chase announced that it will tear down and reconstruct 270 Park Avenue, capitalizing on the Midtown East rezoning that could counterbalance the recent westward and southward migration trends.
- Google closed on its acquisition of Chelsea Market for \$2.4 billion, cementing its office park in the Meatpacking District in Midtown South.
- Class A vacancy dipped by 30 basis points quarter-over-quarter to 8.5%, though impending supply additions should apply upward pressure.

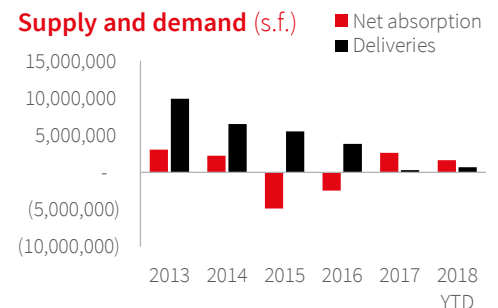
Tight labor market conditions have reinforced office occupiers' desire to upgrade their offices, oftentimes consolidating their footprints into more efficient, dynamic workspaces while doing so. JPMorgan Chase will tear down and rebuild its 1958-vintage headquarters at 270 Park Avenue, expanding the building's footprint by approximately 1.0 million square feet after the acquisition of air rights through the recently passed Midtown East rezoning. Some employees will be relocated to a nearby 418,241-square-foot suite at 390 Madison Avenue, bringing the newly redeveloped tower to full occupancy. Google made headlines when it acquired 75 Ninth Avenue (Chelsea Market) for \$2.4 billion – the second-most expensive office purchase in the history of New York City. As a result, the tech giant further entrenched its campus environment spread across four adjacent buildings in the trendy Meatpacking District. Elsewhere in the burgeoning west side, Roc Nation signed a lease for the 73,000 square feet of available office space at the newly delivered 540 West 26th Street. Facebook also continued to grow in Midtown South, expanding its presence at its New York City headquarters at 770 Broadway by 78,000 square feet. Also of note, Greenberg Traurig finalized a 140,000-square-foot lease at One Vanderbilt – a high-profile tower under construction adjacent to Grand Central Terminal.

Outlook

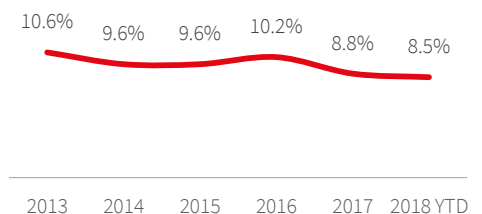
Vacancy rates are expected to tick upward in the coming quarters largely as a result of looming large-block availabilities at existing buildings in Midtown, several boutique office developments in Midtown South, and the delivery of 3 World Trade Center in Downtown. However, reasonably priced, efficient product should continue to attract an outsized share of demand, putting pressure on landlords to upgrade commoditized properties to remain competitive – or offer increasingly competitive concessions packages.

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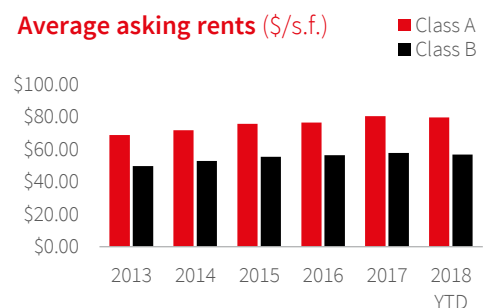
Fundamentals	Forecast
YTD net absorption	1,638,265 s.f. ▶
Under construction	15,388,411 s.f. ▲
Total vacancy	8.5% ▲
Average asking rent (gross)	\$72.48 p.s.f. ▶
Concessions	Rising ▲



Total vacancy



Average asking rents (\$/s.f.)





Northern Virginia

Decreasing direct vacancy the last three quarters should accelerate with increased defense budget

- Record net absorption in Q1 – the largest since 2010 – was led by private-sector tenants, including Nestlé and tech giants; Rosslyn, Tysons, Herndon and Route 28 South were the biggest recipients of that growth
- Two major consolidations will kick off new construction at Reston Town Center: Fannie Mae with 850,000 s.f. and Leidos with 275,809 s.f.
- 1.3 million s.f. of speculative construction will deliver in 2018-19, only 10% of which is preleased. The new budget should jumpstart activity

Northern Virginia experienced 964,818 s.f. of positive net absorption in the first quarter, the largest single quarter since 2010. Rosslyn drove nearly half the gains, led by Nestlé moving its HQ into 1812 N Moore. The private sector accounted for nearly every major move-in and signing this quarter, with contractors comprising 53% of leases > 20,000 s.f., including Leidos' 275,809-s.f. HQ BTS in Reston Town Center. In addition to Leidos, Fannie Mae and MicroStrategy signed notable deals, with Fannie taking 850,000 s.f. at the future Reston Gateway, kicking off construction of the mixed-use project adjacent to the future Reston Town Center metro.

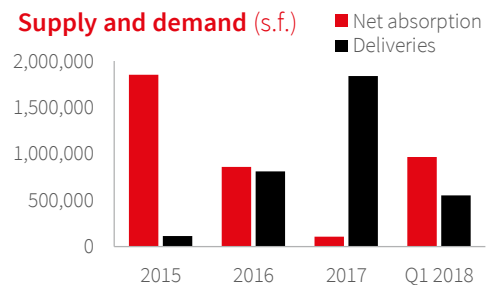
While direct vacancy fell from 19.6% to 18.8% this quarter, sublease vacancy rose by 358,165 s.f. as Gartner (formerly CEB) moved from 1919 N Lynn and 1777 N Kent into 1201 Wilson, which delivered this quarter. Demand remains below historic levels, largely due to a lack of a budget. New construction, which includes 1.3 m.s.f. of speculative product delivering 2018-2019, is achieving record pricing with an average of \$53.02 p.s.f., a 47% premium over Class A rents. However, only 10.2% of the speculative pipeline is preleased.

Outlook

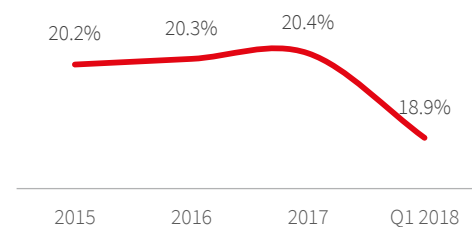
After a sustained pattern of continuing resolutions, the March 23 passage of a FY 2018 omnibus budget bill, with a \$61 billion increase to the defense budget, will quickly jumpstart the flow of contracts in the region and boost demand. IT contractors, in particular, are well positioned as the government ramps up spending in cybersecurity and cloud computing. Submarkets rich in tech and intelligence contractors, particularly Reston, Herndon and Route 28 South, will be among the biggest winners. From a supply standpoint, speculative construction starts will remain limited until leasing picks up, as the next wave of construction starts consists of five BTS projects on- and off-Metro, in addition to 4040 Wilson, which broke ground this quarter.

For more information, contact: Michael Hartnett | Michael.Hartnett@am.jll.com

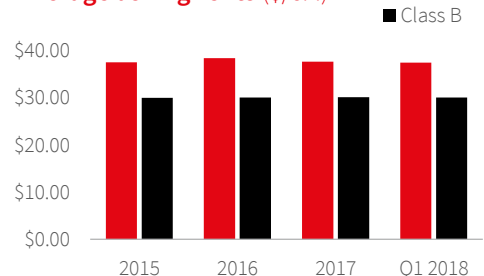
Fundamentals	Forecast
YTD net absorption	964,818 s.f. ▲
Under construction	2,520,963 s.f. ▼
Total vacancy	19.9% ▼
Average asking rent (gross)	\$33.81 p.s.f. ►
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)





Oakland-CBD

Capital markets driving rent growth in the CBD, Class A and B rent gap comes to a close

- Investment activity drives rent growth, especially in the Class B sector.
- Class B average asking rents climbed 69.3 percent year-over-year, pushing \$6.00 per square foot.
- Future move-ins scheduled for later this year will offset the slight uptick in vacancy.

Oakland-CBD is drawing steady interest from San Francisco-based tenants. Sephora is rumored to be leasing 230,000 square feet of redeveloped office at 2150 Webster, and Blue Shield added an additional floor to its future footprint at 601 City Center. Spillover activity could gain momentum once San Francisco's new developments lease up, especially with Prop M limiting future development. Tenants looking for large blocks of space will be forced to look elsewhere. Meanwhile, much-needed space has been released as some price-sensitive companies relocated into tertiary markets, making more space available and boosting overall vacancy rates slightly. Later this year, occupancies by Delta Dental, Clovis Oncology, and Treasury Wine Estates will push absorption back into positive territory.

Oakland's low vacancy and value-add opportunities have attracted investors to the market. Creative Class and Class A buildings are valued in the mid-high \$500 PSF range. Investment activity in recent years has driven rent growth, especially in the Class B market. New owners are raising rents to justify investments on renovations to historical buildings, where select landlords are commanding between \$5.00 PSF to \$6.00 PSF fully serviced. Striking rents for secondary office space ranges between \$4.50 to \$4.85 industrial gross. As a result, Class B average asking rents have increased 69.3 percent since 2015.

Outlook

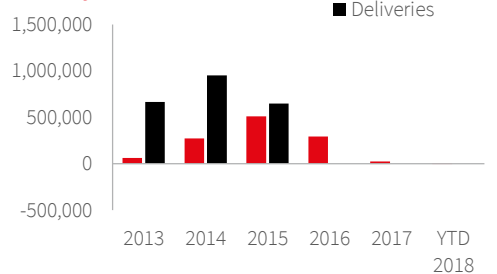
Oakland-CBD vacancy will increase during the next 24 months with as much as 1.2 million square feet of new or redeveloped office space set to deliver, not all of which is pre-leased. Buildings currently under redevelopment include 2150 Webster, Uptown Station and Tribune Tower. New construction includes 601 City Center and 1100 Broadway, both of which are partially pre-leased. As long as other Bay Area markets stay tight, tenants searching for more affordable options will be attracted to the East Bay.

For more information, contact: Katherine Billingsley | k.billingsley@am.jll.com

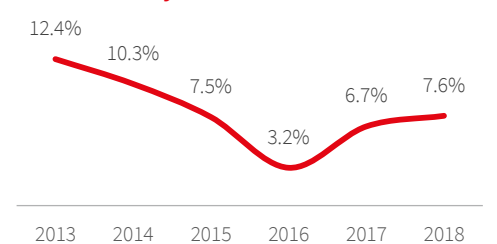
Fundamentals

	Forecast
YTD net absorption	-3,730 s.f. ▲
Under construction	1,211,622 s.f. ▲
Total vacancy	7.6% ▲
Average asking rent (gross)	\$4.97 p.s.f. ▲
Concessions	Stable ►

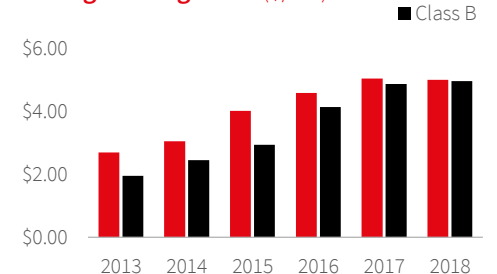
Supply and demand (s.f.)



Total vacancy



Average asking rents (\$/s.f.)





Orange County

High number of available blocks of space provides options for tenants, opportunities for landlords

- Throughout Orange County there are 60 blocks of available space of at least 50,000 square feet with 35 of them located in the Airport Area.
- Broadcom's move from the Airport Area to South County causes swing in net absorption.
- Over 6 million square feet of traditional Class B office product has been converted in recent years to creative space, placing upward pressure on rents.

With an increasing number of companies adopting space efficiency practices combined with 1.6 million square feet of new deliveries over the last six months, there has been an uptick in the number of available large blocks of space. The 60 blocks of space of at least 50,000 square feet are spread throughout 50 buildings with the highest concentration in the Airport Area. There are an additional nine blocks of space when taking into account buildings currently under construction. A majority of these spaces are in Class A or recently converted creative properties. These conditions provide large tenants with the flexibility to search multiple space options. Although there is competition in the market, landlords who attract tenants to occupy these blocks of space will be doing so at a time when rents are high.

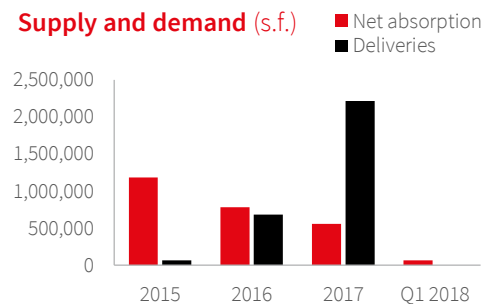
One of the events that contributed to the increase of available large blocks of space was Broadcom moving from the Airport Area to South County. In the first quarter, Broadcom moved out of 685,000 square feet in University Research Park to 600,000 square feet in their build-to-suit project at Five Point Gateway. Broadcom previously moved out of an additional 150,000 square feet but nearly all of that space has been leased. This quarter's move-out was largely responsible for the Airport Area recording -647,149 square feet of negative net absorption, while heavily contributing to South County's positive net absorption of 722,094 square feet.

Outlook

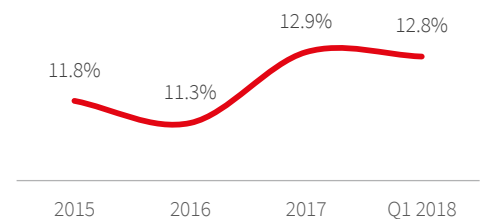
In the past three years, there have been over 100 traditional Class B properties converted to creative buildings, totaling 6.5 million square feet, with a majority of these conversions occurring in the Airport Area. With these renovations bringing higher rents, value-oriented tenants have fewer space options in this submarket. Many of these tenants will be casting a wider net in their searches which could drive up leasing activity in nearby submarkets.

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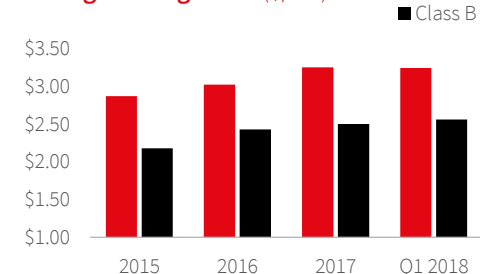
Fundamentals	Forecast
YTD net absorption	65,926 s.f. ▲
Under construction	976,967 s.f. ►
Total vacancy	12.8% ►
Average asking rent (gross)	\$2.93 p.s.f. ▲
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)





Orlando is feeling the heat, with tightness across the market

- CBD rents are rising, thanks to the Church Street Tower's groundbreaking. Large availabilities ahead.
- Maitland Class A vacancy is at 1.8 percent, due to consistent tenant demand for quality space.
- Disney purchase will squeeze Celebration

Orlando is seeing a shift in the market. Church Street Plaza broke ground in Q4. Delayed slightly by buried cables, the structure is going up. With this new addition, Downtown has the first new Class A building since 2012, asking \$35.50 per square foot. This large availability and high asking rate is responsible for the 6.9-percent increase in average asking rates Downtown.

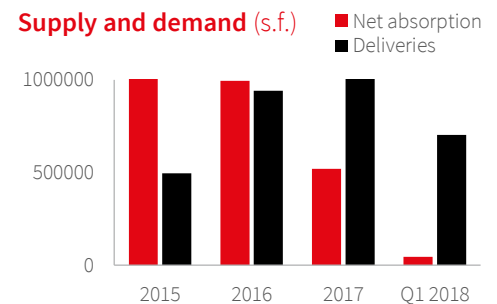
Another area of expected rent growth is Maitland Center. Maitland is the third-largest office submarket in Orlando, with numerous buildings constructed concurrently. While many have depreciated into Class B space, there is sustained demand for quality space. Only one large block of prime space is available at Maitland 100 after CDM Smith relocated to 101 Southhall Lane, explaining the 1.8 percent vacancy among Class A buildings.

Finally, Disney Cruise Lines is expecting to expand in one of their Celebration offices, and has purchased the building (215 Celebration Place) to secure future expansion space. This move will generate new tenant interest in the small submarket, and may result in either new development or tenant moves to the Tourist Corridor.

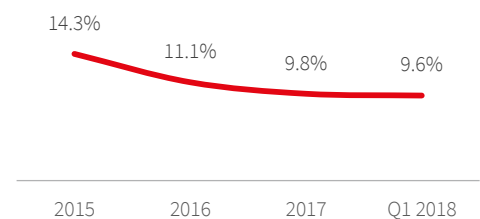
Outlook

Church Street Plaza will deliver high-quality office space and a needed new hotel to the Orlando core. However, the pre-leased tenants will leave several large blocks on the market upon delivery, notably two floors in One Orlando Center and a full floor in CNL I. On top of these looming vacancies in late 2019, BBA Aviation will move to Lake Nona in Q2 2018, leaving 50,000 s.f. in Seaside Plaza. Finally, SunTrust Bank is planning to leave the SunTrust tower in late 2019. These large spaces will mean increased vacancy in Downtown Orlando.

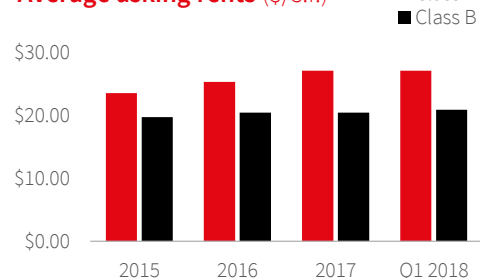
Fundamentals	Forecast
YTD net absorption	45,110 s.f. ▼
Under construction	702,800 s.f. ▲
Total vacancy	9.6% ►
Average asking rent (gross)	\$23.45 p.s.f. ▲
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)



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Philadelphia-CBD

As the weather warms, so does the CBD office market: Q1 absorption turns positive, and asking rents up

- Class A asking rates are up 3.2% quarter-over-quarter and 3.4% year-over-year, due in part to newly listed larger block availabilities.
- Overall vacancy rates are up 90 basis points year-over-year, but 2018 will see occupancy growth thanks to Five Below, Comcast, and others.
- University City asking rents are up 10.8% year-over-year, despite the full lease up of FMC Tower, and we anticipate them to continue to grow.

The new year started quietly in Center City, with leasing activity down in Q1 but absorption trending up into positive territory, despite the vacation of a large low-rise block in Three Logan Square with the expiration of Verizon's lease. Several law firms and a Comcast expansion in the building will bring the building's occupancy back up throughout the year. Neumann Financial, a New Jersey-based spin-off from Beneficial Bank, signed a lease at 123 South Broad for roughly 20,000 square feet. Five Below relocated from 1818 Market Street to their new, larger headquarters at 701 Market, helping to drive over 160,000 square feet of 161,191 square feet of absorption in Market East this quarter. Over in University City, Cira Centre solidified the top of its stack with several tenant expansions, including Rubenstein and LLR Partners.

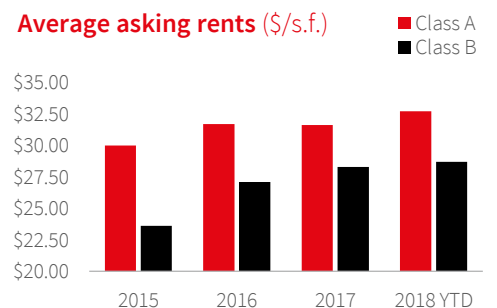
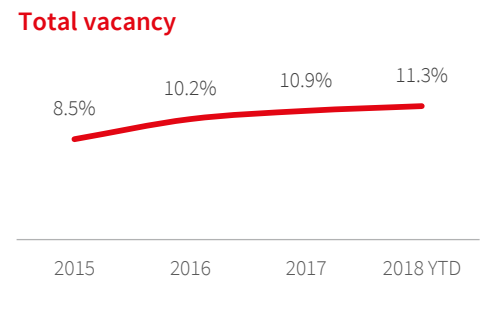
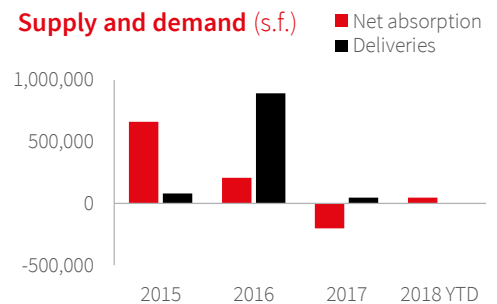
Several sales closed during the quarter. American Real Estate Partners acquired 1600 Market Street for \$160 million in partnership with Chile-based Independencia. Thor Equities purchased the office condominium of 901 Market Street for \$41.8 million. A local investor purchased 1760 Market Street for \$31.5 million. 1650 Arch Street is currently in the market for sale. Closer to the Schuylkill River, PMC Property Group acquired a two-building portfolio at 23rd and Market Streets for \$10 million, adjacent to its nearly complete 2400 Market project. These parcels could accommodate a mix of future uses.

Outlook

The delivery of Comcast Technology Center, 2400 Market, 3675 Market, and One Franklin Tower will grow the inventory by 2.5 million square feet before year's end, with around 80% of it set for 2018 occupancy. While no additional construction starts are confirmed for the year, the ongoing shortage of quality blocks of space may yet drive existing and forthcoming requirements to take a serious look at anchoring ground-up developments, including 1301 Market Street and a first phase of Schuylkill Yards.

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Fundamentals	Forecast
YTD net absorption	46,594 s.f. ►
Under construction	2,574,894 s.f. ▼
Total vacancy	11.3% ►
Average asking rent (gross)	\$31.39 p.s.f. ▲
Concessions	Rising ▲





Philadelphia-Suburbs

2018 in the PA Suburbs starts off sluggishly with slight increases in vacancy and rents quarter-over-quarter

- The suburban office market started the first quarter with a 30 basis point increase in vacancy over Q4. However, on a year-over-year basis, vacancy has declined by 60 basis points.
- Rent growth has been minimal, both on a quarter-over-quarter and on an annual basis, with rents holding steady across most submarkets.
- Major deals include Main Line Health's renewal at 240 N Radnor Chester Road in Wayne and Qliktech's lease of 62,000 s.f. in King of Prussia.

In an otherwise stagnant quarter, the Plymouth Meeting/Blue Bell submarket saw the most notable absorption activity with the move-in of Cotiviti at the recently completed renovation of 785 Arbor Way. The redevelopment of the ArborCrest campus represents a continuing trend of upgrading tired suburban office product into modern Class A. Similar recent renovations in the Plymouth Meeting/Blue Bell submarket have experienced a 23% premium in post-renovation asking rents. Among major leases, Morgan Stanley signed for 100,000 square feet at One Tower Bridge, and Cardone Industries and Crown Holdings both signed large leases to move some or all of their operations outside of the city to Bala Cynwyd and Lower Bucks respectively, citing onerous taxes as one of the driving factors.

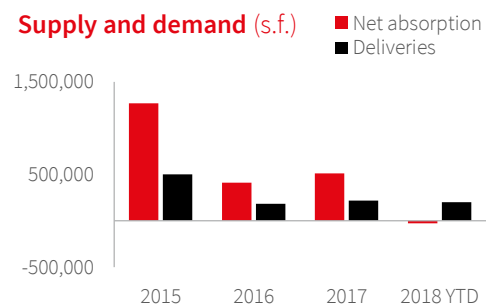
In King of Prussia, Liberty Property Trust executed several sales transactions this quarter, including part of the Renaissance Park Corporate Center containing 2100, 2201, 2300, 2500, 2520, and 2560 Renaissance Boulevard along with 2700, 2900, and 3600 Horizon Drive. Liberty also announced plans to move its headquarters from the Great Valley Corporate Center to Wayne, launching the \$12 million redevelopment of 650 E Swedesford Road. Somerset Properties sold Hickory Pointe in Plymouth Meeting for \$15 million. Speculative construction remains limited, and Seven Tower Bridge, one of the largest proposals, recently announced bankruptcy proceedings.

Outlook

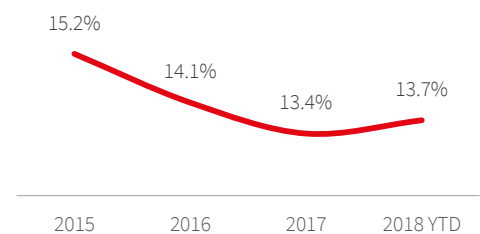
The core submarkets (Radnor, Conshohocken, and Bala Cynwyd) will sustain their high pricing and tight occupancy, but they offer fewer growth and redevelopment opportunities compared to submarkets such as King of Prussia/Wayne, Plymouth Meeting/Blue Bell, and Fort Washington. In these areas, aging inventories in large office parks present opportunities for landlords to capture the growing demand for modern office space.

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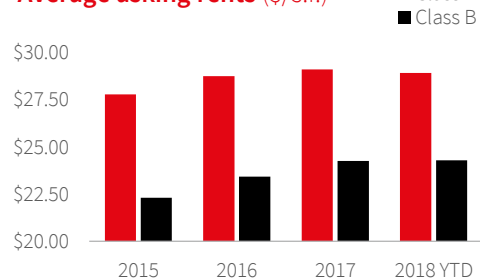
Fundamentals	Forecast
YTD net absorption	-27,049 s.f. ▼
Under construction	40,000 s.f. ▲
Total vacancy	13.7% ►
Average asking rent (gross)	\$26.26 p.s.f. ▲
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)



Phoenix office market reaching 19th straight quarter of positive net absorption

- Construction ramps up again with over 2.4 million square feet currently underway in the Phoenix Metro.
- Vacancy fell to 19.2 percent, reaching the lowest point since 2008.
- Rapid growth is slowing, but the Phoenix market has not yet reached its peak.

The market currently has 2.4 million square feet under construction, with an estimated 1.7 million square feet planning to deliver throughout the next 18 months. Just under of 22 percent of this new development has been pre-leased thus far. While this might seem like a lot of development activity, the lack of speculative properties is forcing tenants to get inventive with spaces.

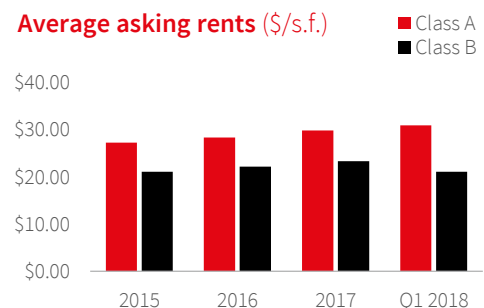
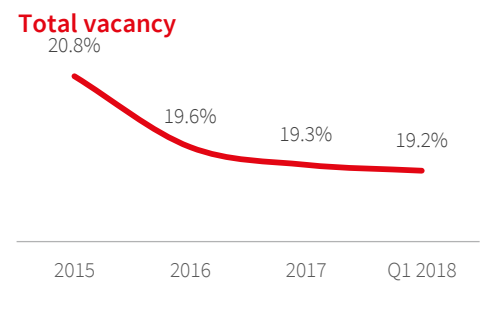
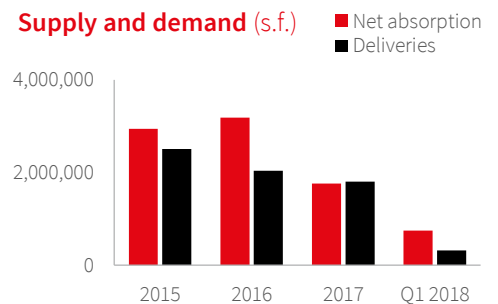
Sales activity reached a strong \$462 million in the quarter. Compressed yields in coastal markets is driving more investor interest in Phoenix, where returns are still relatively attractive. The healthy and growing labor force, affordable cost of living, and temperate climate will continue to attract investors, company headquarters, and tech users, supporting further investment here. Average Class A asking rents rose from \$29.81 p.s.f to \$30.88 p.s.f., an increase of 107 basis points. Tempe took command as the most expensive submarket in the Valley with a Class A asking rates of \$38.73 p.s.f.

Vacancy continued its downward trend, coming in at 19.2 percent this quarter and approaching lows that haven't been seen since the second half of 2008. Tenant activity is strong with over 31 companies currently seeking 2.2 million square feet. A few large tenant move-outs this quarter stifled absorption gains, leaving notable large blocks of space, but there is plenty of room for growth before the market peaks.

Outlook

Although the first quarter was slow by recent standards, it is still the 19th straight quarter of positive net absorption for Phoenix. The market is projected to extend this streak in the second and possibly third quarter of 2018. Anticipated large move-ins will drive net absorption up and create a need for continued development and the creative use of space throughout the Metro area.

Fundamentals	Forecast
YTD net absorption	746,564 s.f. ▲
Under construction	2,442,328 s.f. ▲
Total vacancy	19.2% ►
Average asking rent (gross)	\$25.44 p.s.f. ▲
Concessions	Stable ►



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Pittsburgh

Over 900,000 square feet of new development is underway as investors bet on Pittsburgh's potential

- The year starts off with two large sublease availabilities hitting the CBD and Fringe submarkets.
- There was leasing activity in the West submarket, with over 118,000 square feet signed in the first quarter.
- New developments multiply in the Fringe and Oakland / East End submarkets.

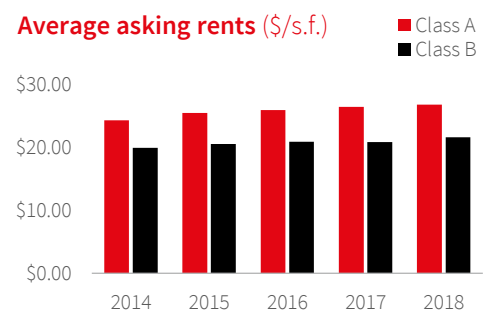
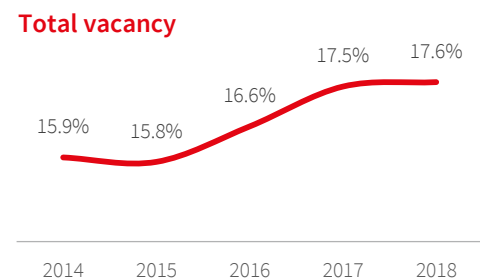
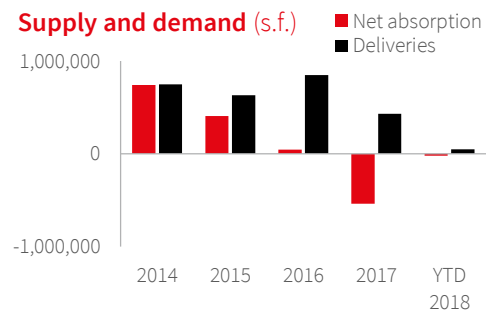
The negative absorption in 2017 ended a long streak of positive absorption for Pittsburgh, but 2018 absorption started out relatively level. The CBD and Fringe submarkets added new large block availabilities, continuing the corporate right-sizing trend into the new year. In the CBD, BDO began marketing their 63,000 square feet of space for sublease at the Heinz 57 Center, however they have not yet vacated. Bank of America also began marketing 144,000 square feet of vacant sublease space in Nova Place in the Fringe. The arrival of new sublease availabilities, along with the new development, has provided additional options for tenants. Meanwhile, in the West submarket, ADP reached a deal to expand by 60,000 square feet in the former GlaxoSmithKline headquarters. At the same location, Value America signed for 35,000 square feet, proving there is still activity in the suburbs.

Outlook

Pittsburgh is positioned to trend back to its recent history of positive absorption. Recently, the move towards efficient work space has caused the average lease size to decline. Nearly twenty percent of Pittsburgh's top fifty employers have lowered their footprint in the past three years. Outside investment has helped Pittsburgh move forward in terms of the renovating and new development of office space, but leasing activity has lagged behind the added availabilities. Although negative absorption and increased vacancy continued into the first quarter, the region's economic indicators are all pointing in the right direction. Tremendous capital investment is being added from the medical sector, the growth in employment was recorded at 1.6 percent at the end of last year and 2017's total investment in technology companies reached a ten year high. The increased investment in the medical and technology sectors and leasing activity in the suburban submarkets are both good indicators that positive absorption is near.

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Fundamentals	Forecast
YTD net absorption	-21,941 s.f. ▲
Under construction	917,608 s.f. ▼
Total vacancy	17.6% ▼
Average asking rent (gross)	\$24.04 p.s.f. ▲
Concessions	Stable ►





Portland

New construction activity dominates the first quarter

- Demand was lackluster this quarter but solid leasing activity should boost absorption numbers over the next six months.
- Vacancy rose above 10 percent for the first time since 2013 as deliveries continue to outpace demand.
- Portland Metro rent increases took a breather, except in the CBD where Class A rents increased 5.6 percent year-over-year.

2018 started the year in much the same way as 2017 with pent-up demand depressing absorption numbers. A number of large leases signed in the second half of 2017 are yet to commence and this should result in strong absorption in the second and third quarter, especially in new construction which is seeing healthy pre-leasing. Vacasa's announcement that it will nearly double in size when it moves to the soon to be delivered Heartline Building, added to a growing list of tech tenants taking up space in new construction. Jet Reports and Ampere Computing will move into The Leland James and Field Office in the third quarter, affirmation that Portland's newest office micromarket is one of the top choices for tenants looking for creative space.

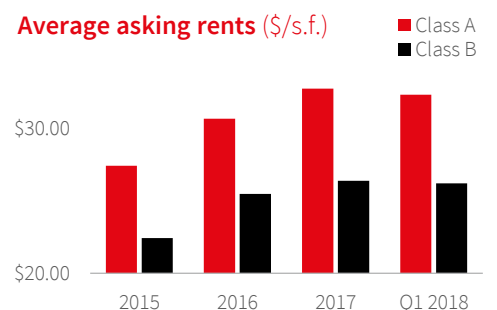
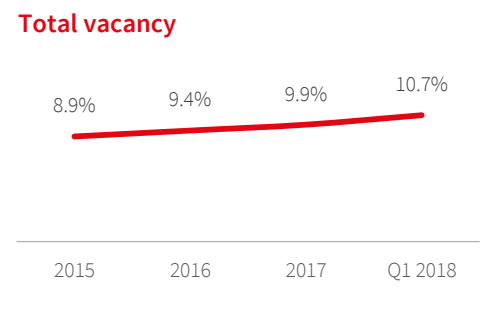
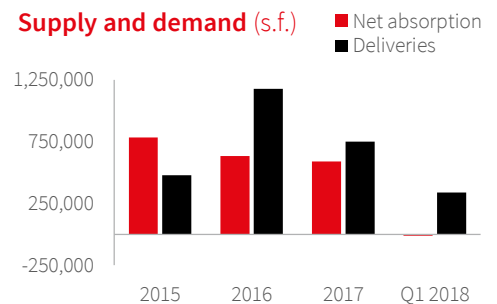
While new construction is providing tenants with more choice, it comes at a price. A new high watermark office contract rent was recorded in Portland with the signing of a \$38.00 per square foot NNN lease. The jump of \$4.00 per square foot from the previous year is the largest increase on record and comes at a time when the high cost of office construction is pushing average asking rents up significantly in the urban submarkets, with asking rents for new construction now averaging \$34.66 per square foot NNN.

Outlook

While the absorption numbers of this quarter were weak, keep an eye on the Westside suburbs. A number of larger deals are currently being negotiated, with the 217 Corridor/Beaverton attracting particular attention, and we expect vacancy and large blocks in most of these submarkets to decrease. We're also starting to see the slowdown of rent increases to more stable levels, with the exception of CBD Class A. New construction and the large number of capital market acquisitions and repositionings occurring in this submarket continues to push rents to record levels and this should continue throughout 2018.

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Fundamentals	Forecast
YTD net absorption	-10,030 s.f. ▲
Under construction	1,057,016 s.f. ►
Total vacancy	10.7% ▲
Average asking rent (gross)	\$28.76 p.s.f. ▲
Concessions	Rising ▲





Raleigh-Durham

Let's work together: Raleigh-Durham makes its mark on coworking

- 2.6 million square feet of office is under construction. When delivered, this new product will account for 5.2% of Raleigh-Durham's inventory.
- While new development is expected to alleviate the tightness in the market, vacancy rates have remained stable.
- Over the last 24 months, coworking tenants have accounted for more than 250,000 square feet of leasing activity.

As one crane comes down, another pops up. After 2017's staggering 1.7 million square feet of deliveries, Raleigh-Durham's development activity isn't slowing down. With 2.6 million square feet now under development, 2018 is ramping up to be one of the market's busiest years yet. Since 2014, an average of 1.0 million square feet has delivered each year. At this rate, Raleigh-Durham's office inventory will exceed 50 million square feet by 2020. Which begs the question: who is driving the demand for product? The answer: technology and coworking tenants. Bandwidth announced it's adding 40,000 square feet to its location on N.C. State's Centennial Campus, joining the list of local technology companies that are growing in the area. Since signing its first lease at One Glenwood just outside Downtown Raleigh, WeWork has announced it will also occupy 58,000 square feet in Downtown Durham.

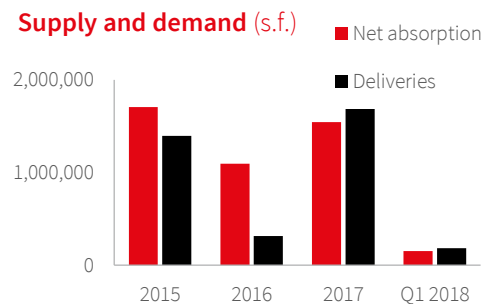
WeWork isn't the only coworking firm making moves in the area. Over the last few years, numerous flexible office locations have grown in the market. Industrious, which opened its first location in 2015, expanded its operations in Downtown Raleigh in 2017. HQ Raleigh is also in expansion mode, having recently completed renovations at the Capital Club building. Local coworking firm Office Evolution, which opened its first location in 2017, plans to add two additional locations.

Outlook

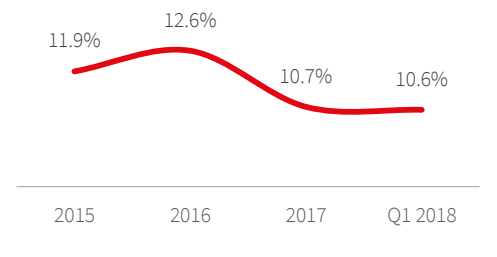
The rise of coworking and flexible office spaces signals Raleigh-Durham's transition from traditional technology and life sciences hub to booming coworking sector. Raleigh-Durham's thriving startup and technology sectors have increased the market's need for flexible office space. Next quarter, Spaces will likely debut its new location at The Dillon, adding more than 27,000 square feet of coworking space to the market.

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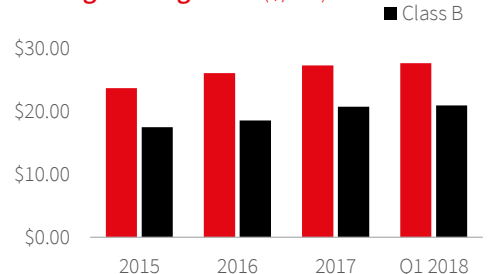
Fundamentals	Forecast
YTD net absorption	153,505 s.f. ▲
Under construction	2,636,251 s.f. ▼
Total vacancy	10.6% ►
Average asking rent (gross)	\$24.61 p.s.f. ▲
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)





Corporate give-backs create negative net absorption for the start of 2018

- New supply was limited; only 90,040 square feet has been delivered between 2016 and 2018, all of which was nearly fully preleased.
- A focus on talent attraction is leading users away from space efficiency measures to more opulent build-outs with amenities.
- Rising Class A rents created spillover demand in the lower class segments, contracting Class B vacancy to 12.3% from the high of 16.1%.

Occupancy gains achieved late 2017 were partially offset by significant corporate givebacks this year. GE Power, formerly Alstom Power, vacated 99,057 square feet at 2800 Waterford Lake Drive in the Rt 288 Corridor, creating the largest block of vacant Class A space in the suburbs and more than doubled the sublet vacancy in the Richmond metro. This combined Capital One's continued consolidation to their owner-occupied corporate campus at West Creek, and other small-scale downsizes in the suburbs, fueled negative net absorption for the quarter.

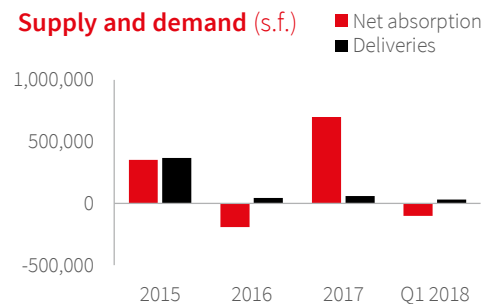
This surplus space may not remain on market long, however, as 81.9 percent of the first quarter's leasing volume was dedicated to expansions and relocations. Most notable was Union Bank and Trust's 67,415-square-foot expansion at Innslake Center in the Innsbrook submarket, producing a footprint increase of 92.8 percent by taking over space vacated by Bostwick Laboratories in 2016.

Outlook

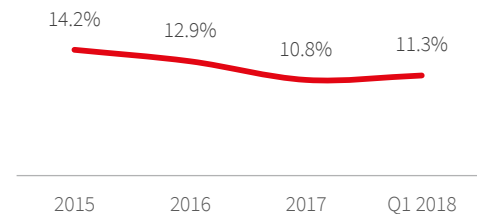
Rising construction costs and additional build-out requirements for shell space produced effective starting rents 40.0 percent above existing Class A asking rates for some proposed developments in the suburbs. This made oversupply risk non-existent near term despite significant vacancy contraction over the past three years. On the other hand, growing demand for office space in urban centers such as Scotts Addition, Manchester, and Shockoe Bottom may warrant small office infill development as residential and retail construction increases population density and expands the walkable amenity base surrounding the CBD. Overall, the Richmond metro is expected to remain space constrained, but more so in the suburbs and urban fringe submarkets than the CBD, maintaining upward pressure on asking rents and downward pressure on concession packages.

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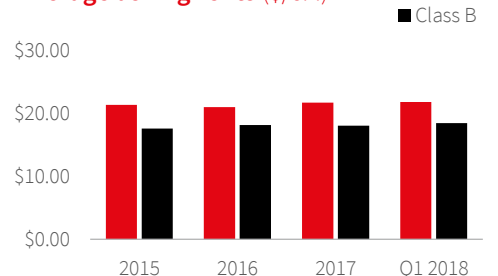
Fundamentals	Forecast
YTD net absorption	-100,222 s.f. ▲
Under construction	0 s.f. ▲
Total vacancy	11.3% ▼
Average asking rent (gross)	\$19.72 p.s.f. ▲
Concessions	Falling ▼



Total vacancy



Average asking rents (\$/s.f.)





Sacramento

Market begins the year with solid growth; demand for newer space driving prime submarkets

- Class A office outside of Sacramento CBD is being heavily targeted by tenants, nearly tripling the net absorption of Class B office space.
- Overall market rents have seen little movement when compared to last year, but prime submarkets are experiencing upward rent growth.
- The Sacramento office market continues to perform above expectations in regards to building sales, surpassing the previous quarter's investment figures.

Market conditions in Sacramento have been steady as the region began the year with positive occupancy gains. While the public sector has been at the forefront of leasing activity, healthcare and professional services firms have also been active. Superior Vision occupied 31,000 square feet in a renovated building in the Highway 50 Corridor, while KP Public Affairs occupied their 19,000 square-foot space on Capitol Mall. Sacramento's CBD is attracting additional interest from tenants. The Center to Promote Healthcare relocated from North Natomas to the CBD submarket at 1 Capitol Mall, reflecting the inward migration from the suburbs.

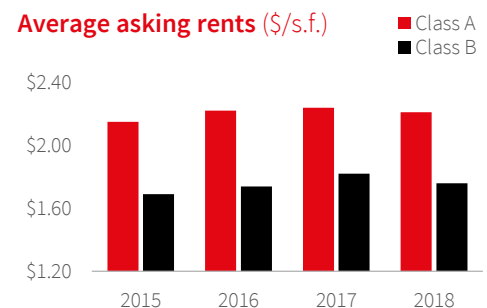
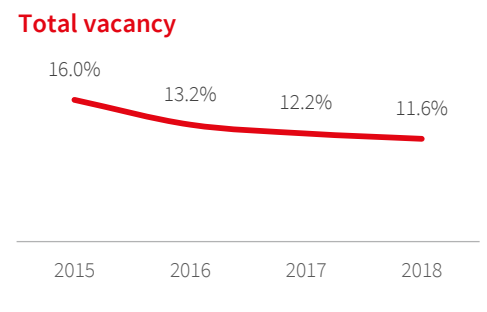
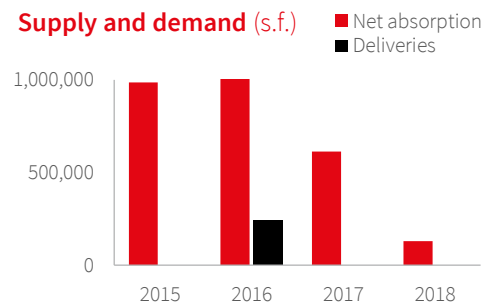
With leasing activity steadily pushing down on vacancy, overall asking rents have risen, but primarily in highly desirable submarkets. CBD rents are up 7.5% from a year ago while Roseville and Folsom rents have grown 3.0% and 4.0% respectively.

Outlook

As the market continues to experience employment growth and steady leasing, overall conditions are expected to tighten. Prime submarkets that house newer office product will see additional rent growth. However, limited availability in areas such as Rocklin and Folsom is creating tighter conditions. With fewer options and bolstered rents for prime space, some submarkets will see an increase in renewal activity until supply constraints can be eased.

Rents have yet to reach a point that would justify new development, but Sacramento is seeing a significant increase in office acquisitions. Sales volumes are up by 50 percent from last quarter. As the market gains further momentum, Sacramento is expected to see more investors target stabilized assets.

Fundamentals	Forecast
YTD net absorption	130,205 s.f. ▼
Under construction	97,000 s.f. ▲
Total vacancy	11.6% ▼
Average asking rent (gross)	\$1.97 p.s.f. ▲
Concessions	Stable ▶



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Salt Lake

Tenants focused on “Silicon Slopes” spur prime Class A development

- Robust employment growth justifies new office projects.
- Class A development spearheads rapidly expanding office inventory, mostly focused in “Silicon Slopes” area.
- Tenant demand for higher end space and low vacancy continue to bump up asking rates.

As Salt Lake’s economy continues to add more jobs with a 2.8 percent 12-month job growth rate, compared to 1.6 percent nationally, companies like Instructure, Centrifly, Mountain America Credit Union, SoFi, and Canopy Tax highlight the demand momentum for quality space market-wide. Enabling these expanding companies, developers have added 6.9 million square feet (m.s.f.), 11.0 percent of total office inventory, since 2014 and 4.7 m.s.f. just over the last two years. Currently, there are an additional 1.6 m.s.f. under construction. These companies seek state-of-the-art new Class A space and developers have responded with 87.8 percent of delivered product over the last four years meeting that criteria. Current construction follows the same pattern with Class A product making up 76.3 percent of the total. In fact, Class A inventory has increased by almost a third over the last four years.

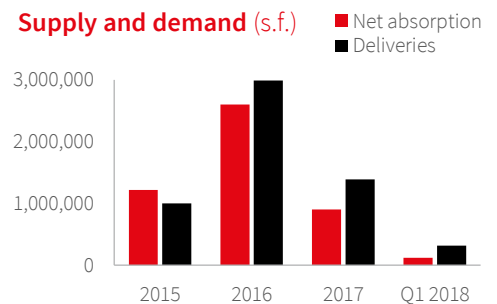
Outlook

Growing companies, especially technology, have predominantly focused on the area known as “Silicon Slopes”, which consists of the south end of Salt Lake County (Draper and Sandy South Towne) and the north end of Utah County. The primary motivators for companies to house their offices there are that it has close access to I-15, brand new Class A space is both available and in the construction pipeline with access to more developable land, and a desire to locate near other companies in the tech industry. Since 2014, Salt Lake has had 5.2 m.s.f. of Class A absorption with 4.0 m.s.f. (76.4 percent) landing in the “Silicon Slopes”.

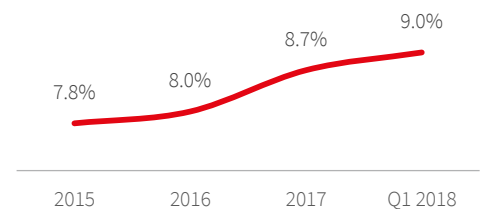
Salt Lake, market-wide, continues to have vacancy below the equilibrium point and a corresponding increase in lease asking rates. These trends are likely to continue throughout 2018 with hyper-demand in the “Silicon Slopes” leading the inventory, absorption, and rental growth.

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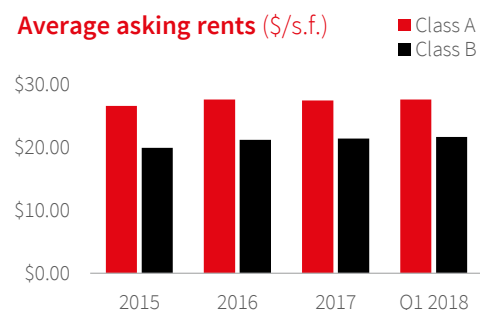
Fundamentals	Forecast
YTD net absorption	120,379 s.f. ▲
Under construction	1,642,580 s.f. ▲
Total vacancy	9.0% ►
Average asking rent (gross)	\$23.24 p.s.f. ▲
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)





San Antonio

Slow end to 2017 continues into 2018

- Slow leasing activity to end 2017 results in negative absorption to start 2018.
- Despite a slow start to 2018, average rental rates continue to climb.
- CBD shines as suburbs slow.

Following a flat fourth quarter to round out 2017, the first quarter of 2018 arrived with a similar tone. Sluggish leasing activity experienced at the end of 2017 resulted in negative absorption to start the year, with the overall vacancy rate increasing 50 basis points. This lull in activity, in tandem with over 600,000 square feet of new product delivered to the market in 2017 were two of the major factors. Absorption numbers for the first quarter of 2018 saw tenants vacate 72,323 square feet more space than was occupied. While leasing was down, tenant requirements appeared to increase in the first quarter compared to the end of 2017. Signs such as this point towards a positive outlook for the coming quarters.

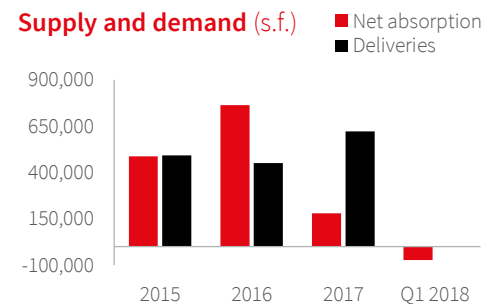
In spite of the setbacks to San Antonio's vacancy and absorption numbers, there were positives that could be taken from the quarter. The average asking rental rate steadily increased for the 8th consecutive quarter. Expect rental rates to continue their gradual increase with potential to ramp up late in 2018 with the deliveries of new Class A construction. While absorption market wide was negative, the CBD submarket posted nearly 23,000 SF square feet of positive net absorption.

Outlook

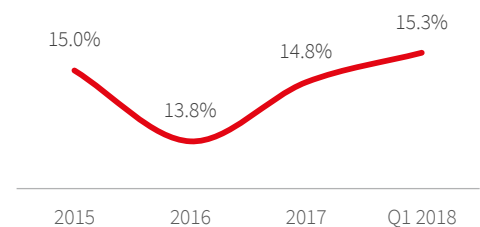
As San Antonio's suburban markets struggle to gain traction, the recently found momentum enjoyed in downtown continued at the start of 2018. With skyline altering projects like Frost Tower well underway and proposed projects on Lower Broadway down to HemisFair Park looking more like reality than concept, expect the momentum of downtown to accelerate even further.

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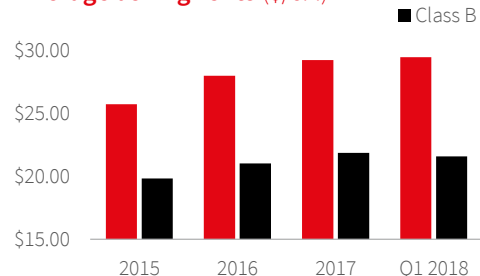
Fundamentals	Forecast
YTD net absorption	-72,323 s.f. ▼
Under construction	1,395,283 s.f. ▲
Total vacancy	15.3% ►
Average asking rent (gross)	\$23.07 p.s.f. ▲
Concessions	Rising ▲



Total vacancy



Average asking rents (\$/s.f.)





San Diego

Amid two large move outs, Q1 remained resilient with nearly half a million square feet of tenant move-ins

- Education sector restructuring across the county is impacting big-block space.
- UTC and Sorrento Mesa lead the way for demand, mid-size user activity remains robust.
- Pre-leased ground-up construction, low vacancy and future move-ins continue to increase average asking rents.

In Q1 2018 there were two large tenants that vacated a total of 375,000 square feet (s.f.), the City of San Diego relocation in Downtown and Bridgepoint in Rancho Bernardo consolidating into their Kearny Mesa location. Compared to all of 2017 there were only two move-outs over 100,000 s.f. (Novatel Wireless in Sorrento Mesa and Renovate Americas relocation in Rancho Bernardo). There are two large education tenants looking to relocate, Alliant University in Scripps Ranch and Thomas Jefferson School of Law in Downtown. Another education tenant making an impact on large office space this year is the Regents of The University of California that will be occupying 82,000 s.f. in Kearny Mesa and another 58,000 s.f. in Rancho Bernardo.

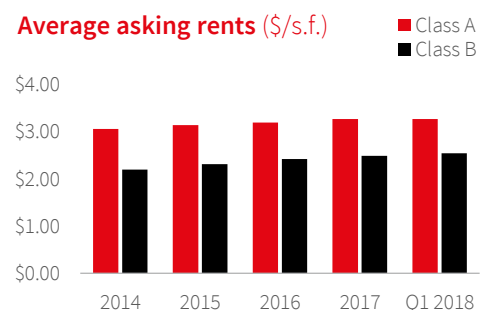
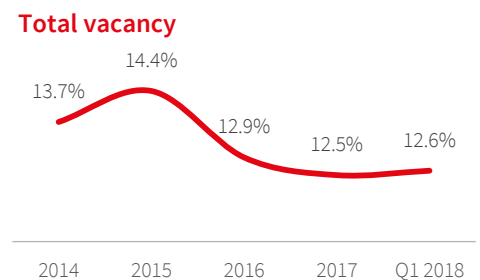
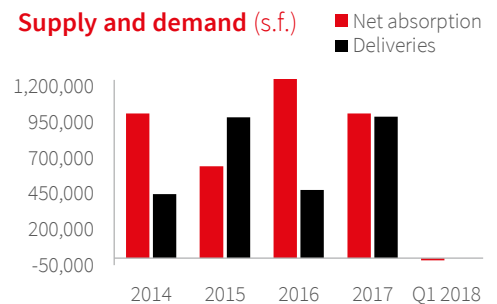
Leasing activity for San Diego's small to mid-size companies was robust throughout Q1 2018. The market saw nearly twice as many move-ins compared to the number of move-outs among 10,000 s.f. and greater. There was a total of 475,000 s.f. of move-ins all ranging from 10,000 to 70,000 s.f. The two standout submarkets in Q1 for positive absorption were Sorrento Mesa (70,000 s.f.) and UTC (98,000 s.f.). Top move-ins included Omnitrac LLC and Internet Brands in Sorrento Mesa then WeWork and KPMG in UTC.

Outlook

Overall average asking rents increased 2.8 percent in Q1 from Q4 2017 due to stable vacancy, 65 percent pre-leased new construction, and 700,000 s.f. of future tenant move-ins. The largest future occupancies include Nortek Security (88,858 s.f.), TrellisWare Technologies (72,308 s.f.), Abacus Data Systems (63,129 s.f.), and Great Call (56,153 s.f.). Technology and scientific research sectors accounted for 53 percent of leasing activity in the quarter. Although demand was flat for Q1, large tenant requirements for education, technology, and scientific research sectors will continue to bolster leasing throughout the year.

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Fundamentals	Forecast
YTD net absorption	-16,817 s.f. ▼
Under construction	1,256,098 s.f. ▲
Total vacancy	12.6% ►
Average asking rent (gross)	\$2.79 p.s.f. ▲
Concessions	Stable ►





San Francisco

Tech tenants fuel leasing momentum in San Francisco

- Leasing activity is strong, with just over 2.1 million square feet of office space leased in Q1 2018.
- Multiple large tenants are moving into preleased space, causing net absorption to rise.
- Despite being 96.4 percent preleased, Salesforce Tower is only partially occupied, causing total vacancy to tick up.

Leasing activity is maintaining momentum from last year, with three deals over 100,000 square feet signed in the first quarter. WeWork leased 251,000 square feet at 400 California, expanding their San Francisco presence to just over 1.0 million square feet of office space. Twitter renewed for 221,000 square feet at 1355 Market and StitchFix signed for 133,952 square feet at One Montgomery.

There was significant net absorption in the first quarter of 2018 as multiple large tenants occupied their preleased spaces, with Salesforce Tower being the largest contributor. Despite driving positive absorption, many of Salesforce Tower's tenants have yet to occupy, causing total vacancy to rise. The recently delivered development, which is 96.4-percent preleased, will drive absorption upward and allow vacancy to tighten up as its tenants begin to occupy their spaces throughout 2018 and early 2019.

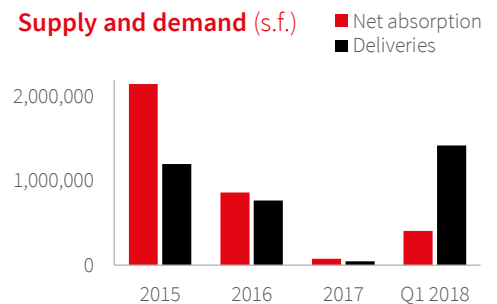
San Francisco tenants value spaces with creative and flexible build-outs that are move-in ready, causing strong demand for both creative and plug-and-play spaces. Landlords are offering higher tenant improvement allowances for outdated spaces in an attempt to meet the needs of present-day tenants.

Outlook

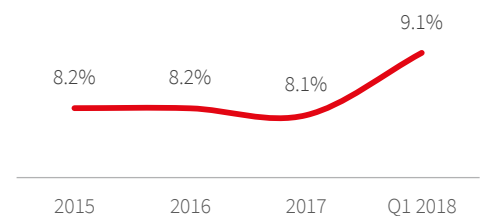
There is currently 5.3 million square feet under construction in San Francisco. 3.2 million square feet is slated for delivery before year-end 2018, of which 76.5 percent is preleased. Absorption will rise and vacancy will tighten as new developments are occupied throughout 2018 and early 2019. Rents will increase as well as these availabilities possess some of the highest asking rates in San Francisco.

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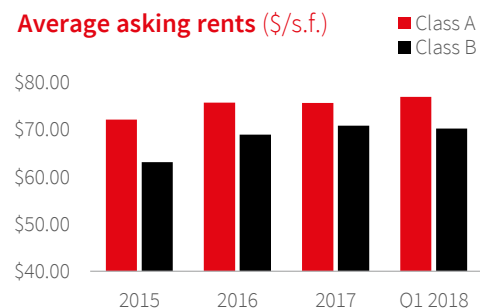
Fundamentals	Forecast
YTD net absorption	408,909 s.f. ▲
Under construction	5,263,942 s.f. ►
Total vacancy	9.1% ▼
Average asking rent (gross)	\$74.64 p.s.f. ▲
Concessions	Rising ▲



Total vacancy



Average asking rents (\$/s.f.)





San Francisco Mid-Peninsula

Caltrain corridor remains hot, but consolidation among large financial tenants push vacancy higher

- Deal activity has been steady. With few downtown Redwood City options available, some tenants are looking to suburban campuses along 101
- Consolidation among large financial tenants has added vacancy to the Central County
- Leasing activity in the North County has begun to pick up the pace, fueled by life science and small tech companies in need of administrative office space

Leasing activity has held steady despite vacancy rates slightly rising over the past 12 months. Much of the focus has been along the El Camino/CalTrain corridor, where demand for new development is especially strong. Guidewire Software landed a 189,000 square-foot space at Bay Meadows in San Mateo. The company is relocating from Foster City, illustrating the importance of amenities and CalTrain access. Guidewire will leave behind several floors in Foster City, where Visa recently put 200,000 square feet on the market at its corporate campus, driving vacancy up in that submarket. Meanwhile, the Brisbane office market is slowly picking up steam as more tenants begin to land there. Relatively lower asking rates, proximity to San Francisco, and a red hot biotech sector are attracting more full-floor tenants to the North County.

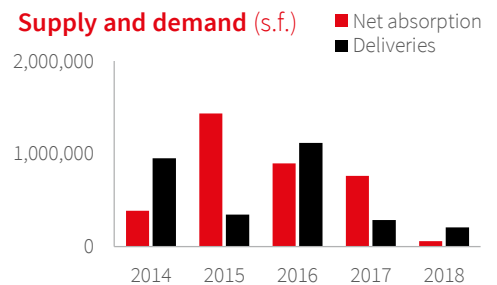
Outlook

The thriving local tech sector is translating to greater demand for office space as companies expand. Several large corporate tech tenants are aggressively expanding, putting pressure on Menlo Park and Redwood City.

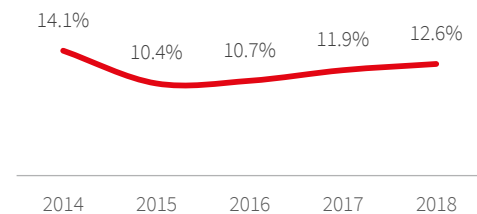
Tenant migration will move through the 92 corridor toward the North County, despite some dampening from the elevated Foster City vacancy. Additional new development would potentially ease supply-constrained submarkets, but many projects are still working through entitlements and may not be available to meet more urgent tenant needs. With several sizeable tenants looking to expand, any newly entitled projects are highly likely to achieve significant pre-leasing.

The local tech sector will drive growth in the Mid-Peninsula office market during 2018. Tenants like Guidewire are expected to drive positive net absorption and to keep rents on an upward trajectory during the year.

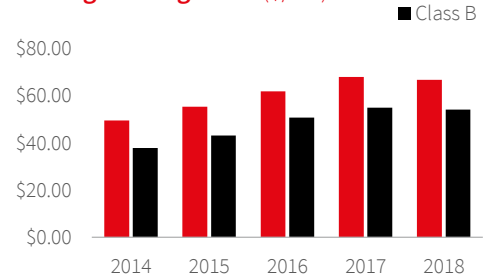
Fundamentals	Forecast
YTD net absorption	59,883s.f. ▲
Under construction	1,801,535 s.f. ▲
Total vacancy	12.6% ▼
Average asking rent (gross)	\$64.44 p.s.f. ▲
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)



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Seattle-Bellevue

Pent up absorption is felt in the Seattle-Bellevue Office market

- Increases in vacancy to 10.0% can largely be attributed to a couple of large move-outs and sublease spaces becoming vacant, but market fundamentals remain strong as evidenced by future absorption.
- Seattle CBD adds significant supply of coworking space to the office market.
- Technology, coworking and life science sectors remain very active in the market and account for 70 percent of total requirements.

The Seattle office market experienced positive net absorption, but the growth was limited by a handful of big move-outs. Notably, Boeing vacated nearly 190,000 square feet from the I-90 Corridor and plans to vacate an additional 138,000 square feet from Renton. However, we anticipate a significant volume of occupancy gains in the coming quarters as there are nearly 3.0 million square feet of signed leases that are currently vacant but will be occupied by multiple tenants including Amazon and WeWork throughout the year.

After closing out an impressive year in 2017, the amount of leasing activity declined in Q1, but included several notable transactions. WeWork recently signed leases totaling 250,000 square feet in the Seattle CBD, with a target occupancy in Q3 2018. Aggressive expansion is expected throughout the year, driven by changing nature of work and its accessibility with affordable costs.

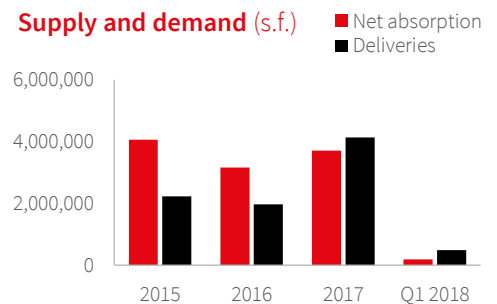
Sales activity had a slow start to they year, but expectations are that activity will pick up slowly throughout the year. Several high-profile properties will be on the market and demand and pricing for these assets will be important indicators of the state of the Seattle/Puget Sound capital markets.

Outlook

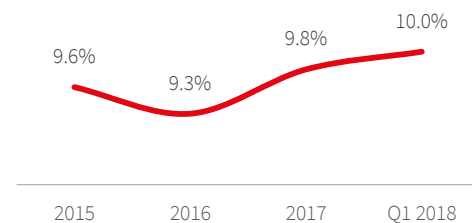
Despite a slowdown in leasing transactions during the first quarter, we expect this to be a temporary setback. Demand in the market remains strong and we anticipate leasing velocity to rebound in the coming quarters. Several potential leases are in the pipeline, while others are currently being finalized. Additionally, the development pipeline remains strong and several office projects are planned that could break ground if they are able to secure large tenant commitments. With continued strong demand and more than 5.0 million square feet potentially coming to the market over the next two years, Seattle should still be poised for continued growth.

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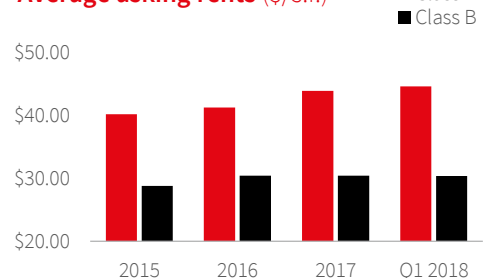
Fundamentals	Forecast
YTD net absorption	192,856 s.f. ▲
Under construction	4,821,203 s.f. ▲
Total vacancy	10.0% ▼
Average asking rent (gross)	\$38.26 p.s.f. ▲
Concessions	Falling ▼



Total vacancy



Average asking rents (\$/s.f.)





Silicon Valley

Occupancy levels head south, but so are tenants looking for Class A office expansion

- M&A and consolidation activity in the hardware sector led tenants to vacate space, resulting in significant occupancy losses during the first quarter.
- Rents in prime submarkets are at cyclical peaks, but older, less desirable space is weighing down overall market rents.
- Demand for high-quality, Class A space is holding firm, with tenants landing deals in newer office construction.

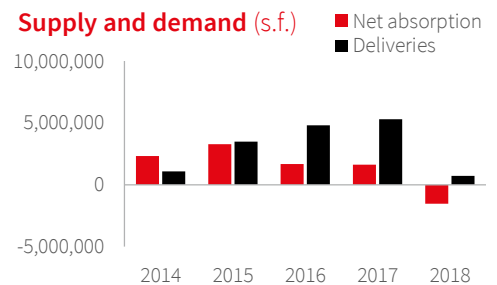
Silicon Valley vacancy pushed higher in the first quarter. This rise was expected, as fallout from merger, layoff, and consolidation plans announced last year by several large networking and telecom companies finally hit the market. The bulk of space to hit the market is concentrated in North San Jose and Milpitas. Because of their significant inventory of older property, leasing activity in these areas has been moderate compared to other parts of the Valley. Tenant demand for Class A space is concentrating on submarkets that have a larger supply of newer, more desirable space. The Valley has become a polarized market, where heated submarkets are tight, while softer conditions prevail in regions such as San Jose and Milpitas.

Outlook

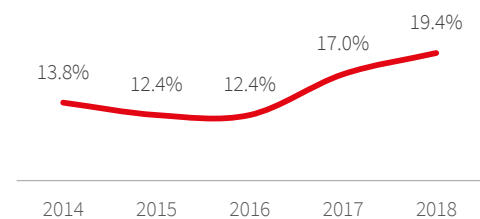
2018 has started on a similar trajectory to 2017, with significant negative net absorption early on driven by the local semiconductor industry. Last year, the situation turned around during the fourth quarter with large corporate tech tenants occupying new development. More than 1.0 million square feet of pre-leased Class A space will be occupied later this year by tenants such as Veritas, Analog Devices, 8x8 and Google. Santa Clara will capture much of this absorption. The submarket has experienced a rise in Class A vacancy and has good supply of options for expanding tenants.

Despite some consolidation, the Valley's local technology sector is not slowing. Several large tenants are rumored to be circling, while mid-sized, full-floor tenants are trading up for nicer space. Average asking rents will stay stable for the first half of 2018, but the resurgence of large leasing activity could push rents past 2017 levels before year end.

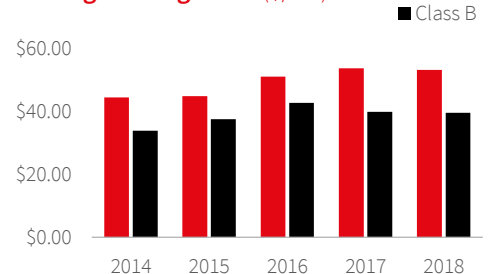
Fundamentals	Forecast
YTD net absorption	-1,522,070 s.f. ▼
Under construction	2,964,101 s.f. ▲
Total vacancy	19.4% ►
Average asking rent (gross)	\$49.92 p.s.f. ▲
Concessions	Stable ►



Total vacancy



Average asking rents (\$/s.f.)



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St. Louis

Asking rents move up as quality space remains limited

- The second phase of Ballpark Village broke ground this quarter, giving Downtown St. Louis its first new construction office building since the 1980's.
- Landlords of Class B buildings are taking advantage of tight Class A conditions and raising asking rates. Rates were up 3.3 percent from last quarter.
- Local investors remain active in acquiring suburban office properties.

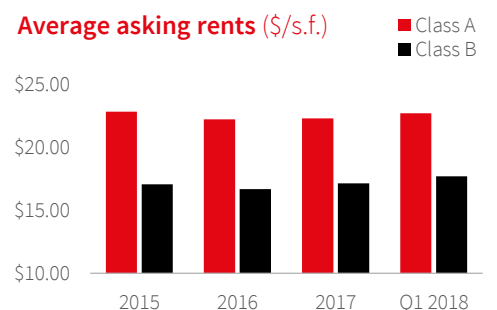
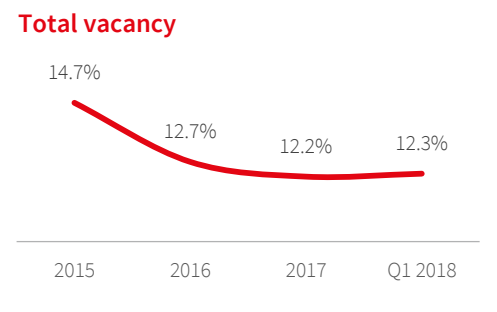
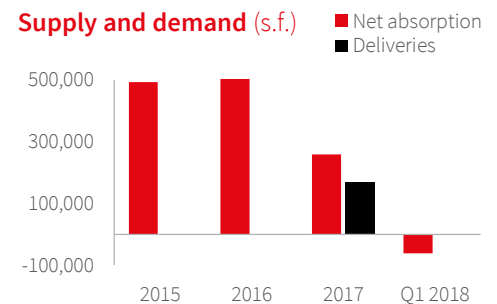
A quiet first quarter brought negative absorption to the region for the first time since 2014. However, overall fundamentals remain strong, unemployment is below 4.0 percent and office occupying job growth continues to outpace the rest of the region. Both Kellwood and The Art Institute downsized this quarter, both vacancies are over 30,000 square feet. Leasing activity was led by American Family Insurance's 80,000 square foot transaction at The Crossings at Northwest. The insurance company will join Charter and St. Louis County at the converted mall when it moves from Riverport (Northwest County) early next year. Local owners continue to be active as Scott Properties and Bamboo Equity Partners made acquisitions this quarter. The second phase of Ballpark Village broke ground in January. The building will give Downtown St. Louis its first new office building since the 1980's. Accounting firm PwC is already signed on as an anchor in the 120,000 square foot building.

Class B landlords took advantage of tight conditions in the Class A market. Several buildings upped asking rates this quarter giving the region a 3.3 percent bump from the end of 2017. The move upped overall asking rates 3.0 percent from last quarter.

Outlook

With less than 10 Class A suburban vacancies over 20,000 square feet, the market remains tight. However, there is some vacancy on the horizon as TD Ameritrade recently announced further layoffs after acquisition of Scottrade. Two of its four buildings remain on the market for sale. Local pharmacy giant, Express Scripts just reached an agreement to be acquired by Cigna. Express Scripts occupies a significant amount of office space at its campus in Northwest County and the fate of its space is still unknown.

Fundamentals	Forecast
YTD net absorption	-61,414 s.f. ▲
Under construction	825,735 s.f. ►
Total vacancy	12.3% ►
Average asking rent (gross)	\$20.11 p.s.f. ▲
Concessions	Stable ►



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Suburban Maryland

Development and leasing activity rise, but lower-tier product drags down quarterly market fundamentals

- Move-outs and consolidations in Class B and Class C product resulted in negative absorption for the quarter.
- Trophy development in Bethesda-CBD has helped raise the overall average direct asking rate by 5.7% over the past year.
- Aided by a pair of life science deals, leasing activity increased 9.7% year-over-year with three leases signed for larger than 100,000 s.f.

While a handful of move-outs and contractions softened Suburban Maryland's quarterly absorption, the development pipeline has risen to a five-year high, and leasing activity ticked up 9.7% compared to Q1 2017. The largest consolidation came from Greenhorne and O'Mara, an engineering firm in Laurel, giving back half of their space at 6110 Frost Place. The contractions were limited to the lower tiers of the market: Class A product posted 74,819 s.f. of net absorption for the quarter.

Driven by Trophy projects in the Bethesda-CBD, new development has achieved \$60+ p.s.f. rents, a first for the market. The increase in construction comes after three years of no new product in Bethesda-CBD, and direct Class A vacancy declining to 8.4%. Demand to-date has come primarily from within Montgomery County, drawing tenants from off-Metro Class A space.

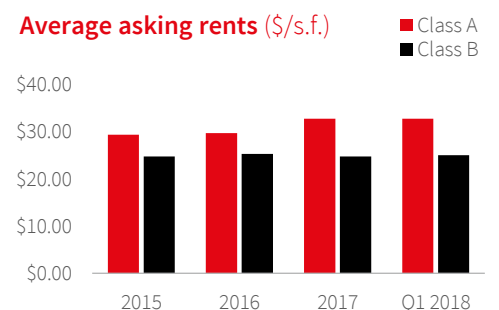
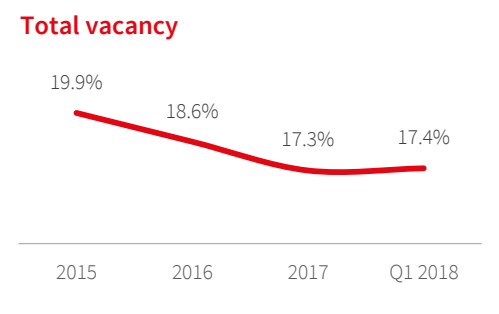
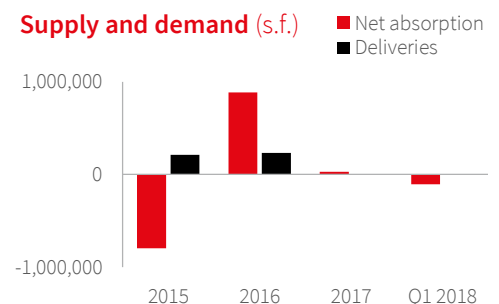
Leasing activity during the quarter was aided by an uptick in life science demand. The largest deal landed at 1201 Clopper Road, where Lentigen signed a 147,051-s.f. relocation as the life science company expands within Montgomery County. In addition to Lentigen's lease, two other leases signed for over 100,000 s.f., including Supernus Pharmaceutical's expansion to 118,834 s.f. at 700 Quince Orchard Road.

Outlook

As Trophy development garners preleasing in Bethesda-CBD, there could be an opportunity for tenants to move up into second-generation commodity Class A space. While market fundamentals for Class A space will most likely stabilize over the next 12 months, it is unclear what will happen to the Class B and Class C market dynamics as tenants upgrade into higher quality buildings. The trend will likely leave Class B owners to either update their building, or change the use of the building in order to make their space competitive in the market.

For more information, contact: Sara Hines | sara.hines@am.jll.com

Fundamentals	Forecast
YTD net absorption	-104,998 s.f. ▲
Under construction	1,463,700 s.f. ▲
Total vacancy	17.4% ▼
Average asking rent (gross)	\$28.84 p.s.f. ▲
Concessions	Rising ▲





Tampa Bay

2018 is poised to be the year Tampa Bay's pipeline flows rather than trickles

- The market continues to tighten as vacancy rates remain on the decline – at a faster pace in Class B product, but with Class A vacancy currently nearly half that of Class B – at 8.3%.
- The groundbreaking of Westshore's newest office building has broken the \$40.00 gross asking rate ceiling for the region.
- As developers continue to advance their proposals for downtown and the suburbs, 2018 could see the start of multiple new office projects.

As a new year begins, it appears Tampa Bay is positioned to see a shift in how it is defined as an office market. The disparity between high-end office demand and the availability of space has had historical implications on both the ability for rental rates to grow and the options firms have when looking to relocate or expand. Now, some of that can be alleviated as MetWest Three breaks ground in Westshore, bringing 90,000 square feet of available space to market, and both Strategic Property Partners and Feldman Equities make progress on their ambitious developments in downtown Tampa.

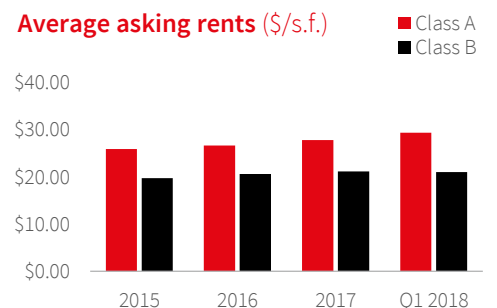
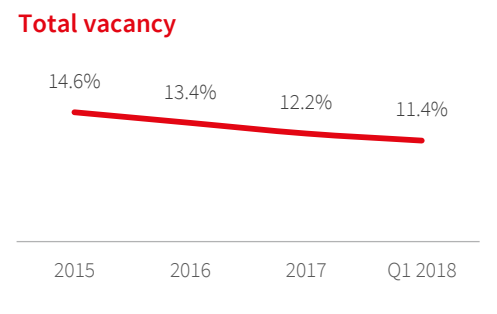
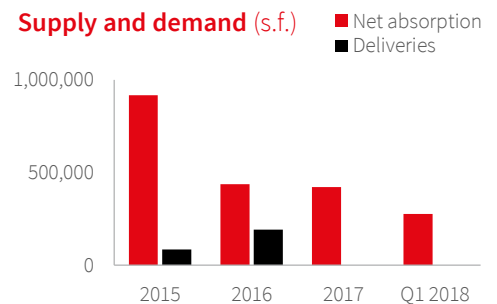
The recipe is there, as existing building owners are already seeing historically high rents of \$33.00-\$34.00 gross Downtown and \$36.00-\$37.00 gross in Westshore, with the latest building fetching a 10 percent premium and breaking \$40.00 in asking rent. On top of that, the first quarter of 2018 saw the highest net absorption in the last seven quarters, with large users such as EmCare, Surgery Partners, HDR Engineering, ER Squibb & Sons, and Windhaven Managers moving into their new spaces in Gateway and Westshore, and contributing to the nearly 250,000 s.f. of absorption the region saw to start the year.

Outlook

As the culmination of population, job, and office demand growth comes to a head in Tampa, 2018 could be the year where we see dirt moving on office projects, especially in Downtown Tampa and Westshore. Increasing asking rates and strong absorption are validating the proposals currently in the pipeline, at a time where Tampa continues to shine as a great place to do business in the southeast. Regardless of whether or not development springs forward this year, we will continue to see increasing asking rates across the region, especially in Class A product, and falling concessions as leverage remains in the hands of Landlords.

For more information, contact: Kyle Koller | kyle.koller@am.jll.com

Fundamentals	Forecast
YTD net absorption	246,735 s.f. ▲
Under construction	416,554 s.f. ▲
Total vacancy	11.4% ▼
Average asking rent (gross)	\$25.28 p.s.f. ▲
Concessions	Falling ▼





Washington, DC

Supply will outpace demand as 4 million s.f. delivers in 2018 and growth remains confined to tech/coworking

- Growing tech companies such as Yelp, Facebook and Mapbox remain the main driver of occupancy growth, along with WeWork, working to offset consolidation among federal agencies and law firm rightsizing.
- Large-block options >20,000 s.f. have increased by 40% over the past two years; 12 buildings, all with large block availabilities, will deliver in 2018.
- Class A rents will decline by 3% over 2018 as concessions rise due to excess supply, while Class B rents will grow by 4% as options dwindle.

Tech companies and coworking providers generated more than 200,000 s.f. of occupancy gains in the first quarter as Facebook and Yelp took occupancy at Terrell Place and MakeOffices opened at The Wharf and in Georgetown (Glover Park). These sectors will remain the main driver of growth in Washington, DC. During Q1, WeWork announced the opening of its ninth location at 777 6th and is now the largest private sector tenant in the city with a footprint of 500,000 s.f.

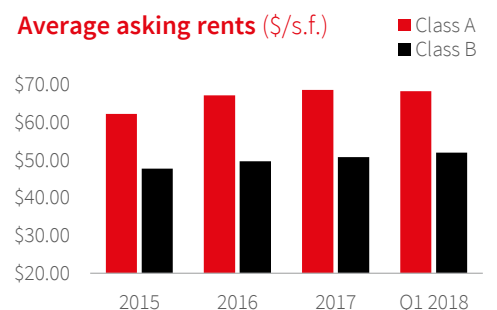
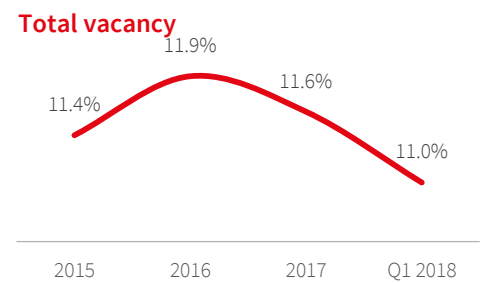
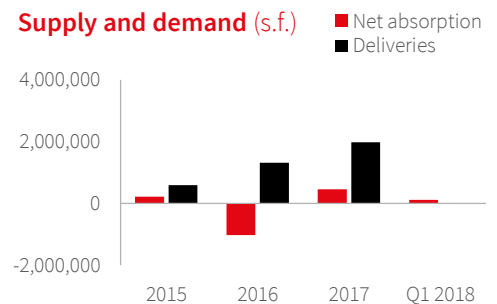
While tech and coworking providers are growing rapidly, the traditional segments of the tenant base – namely law firms – continue to rightsize, primarily by relocating from former Trophy product to new developments. WilmerHale, Baker Botts and Pepper Hamilton all recently signed leases at new product and reduced their footprints by 25% to 50%. Only eight large law firms have not rightsized in the current cycle, all of which have lease expirations in the 2022-2024 time frame.

Outlook

With 7.6 million s.f. under construction and only 52% preleasing commitments, leverage within the Trophy and Class A segments of the market will remain strongly in tenants' favor as options remain plentiful. Over the past two years, core large-block options have increased by 40% with the largest jump in the \$50-\$59 p.s.f. FS tranche as former federally occupied buildings are renovated into the mid/high-\$50s p.s.f. FS and commodity Class A buildings that have faced prolonged vacancy have started to drop rents from the \$60s p.s.f. FS into the high-\$50s p.s.f. FS. As Trophy/Class A vacancy rises from 16% towards 20% over the next 24 months, rents will continue to decline. In contrast, leverage within the Class B market is shifting in landlords' favor as vacancy has dropped below 8% and rents have grown by 7.3% over the past 24 months. The tightening of the Class B market has been a boon for the non-core submarkets, which continue to see inbound private sector demand.

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Fundamentals	Forecast
YTD net absorption	111,760 s.f. ▲
Under construction	7,636,919 s.f. ▼
Total vacancy	11.0% ▲
Average asking rent (gross)	\$59.99 p.s.f. ▼
Concessions	Rising ▲





West Palm Beach

Growth is trending in the suburbs with numerous large blocks leasing up

- Palm Beach County has seen slow but steady growth this cycle – while early in the cycle it was focused downtown, more recently it has been focused in the suburbs
- Boca Raton North has seen considerable growth due to the lease up of the Boca Raton Innovation Campus

Palm Beach County vacancy has declined 280 basis points since the start of 2016 to 14.7 percent and rents have risen 15.7 percent to \$31.57 (full service) over the same period. Downtown saw its strongest growth earlier in the cycle with the lease up of much of the Trophy buildings – those assets are now 95.1 percent occupied. However, more recently the tightening of the market fundamentals has been strongest in the suburban markets.

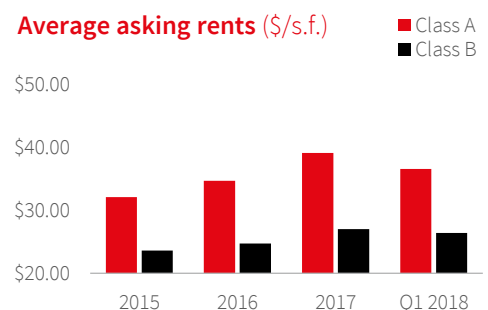
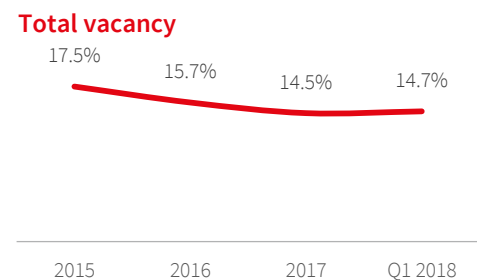
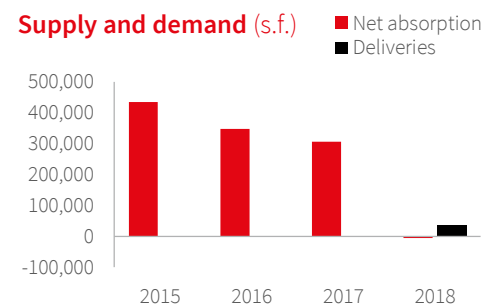
Boca Raton North has seen considerable growth over the previous few years – namely through the lease up of the Boca Raton Innovation Campus (BRIC). In Boca Raton North, vacancy has declined 500 basis points to 18.9 percent since the start of 2016 – there was a 170 basis point decline quarter-over-quarter. Large relocation and expansion deals signed last year led to this trend. In early 2018, Shoes for Crews occupied 34,800 square feet in BRIC, relocating from Suburban West Palm Beach (One Clearlake Center) and IDA moved into 22,600 square feet on the campus. In addition, while not part of BRIC, the Geo Group expanded, leasing and occupying 24,900 square feet for their legal group in 4855 Technology Way – another property in the submarket.

Outlook

Growth will likely continue to be focused in the suburban markets, where the majority of large blocks are located. Currently, there are 30 large blocks in the suburbs, compared with just six in Downtown. And, for tenants touring the market for 20,000 square feet or more, many of those blocks Downtown are not ideal. All but two are on multiple floors. Growth is expected to remain positive as no major new construction or move outs are in the pipeline to disrupt current trends.

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Fundamentals	Forecast
YTD net absorption	-5,100 s.f. ▲
Under construction	0 s.f. ▲
Total vacancy	14.7% ►
Average asking rent (gross)	\$31.57 p.s.f. ▲
Concessions	Stable ►





Westchester

Building conversions continue as White Plains goes through cultural change

- Westchester County continues to see office buildings demolished or converted into alternate uses
- Negative absorption figures have overshadowed over the market for five straight years.
- The adaptation of the “live, work, play” continues to be the driving force of the market

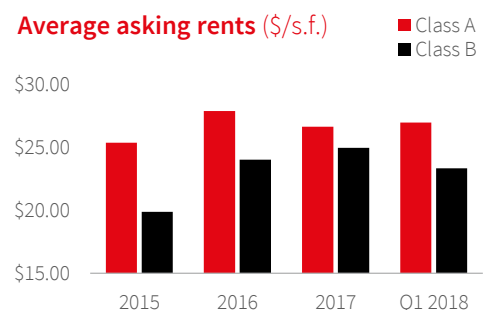
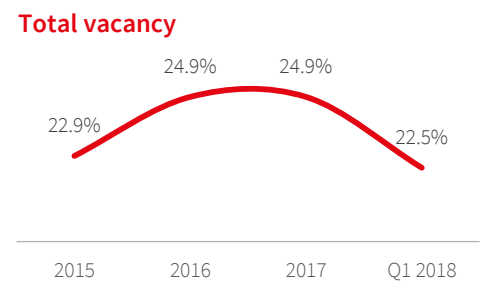
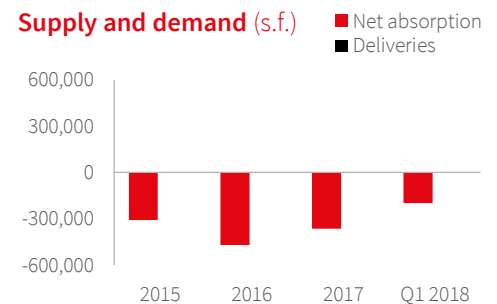
More than 667,601 square feet of office buildings in Westchester County have either been demolished, expected to be demolished, or are being converted into other uses. Headlining the conversions is 3 Westchester Park Drive in White Plains. The plan is to turn the office space into 440 apartment units. This follows the major trend of “live, work, play” that is currently underway in downtown White Plains. Approximately 15,000 additional residential units are currently being built or approved. Expect restaurants and other retail development to arise along with the multi-family construction.

While White Plains remains to be a relatively healthy submarket, Westchester County as a whole has seen negative absorption for five consecutive years. Companies including Pepsi and IBM have vacated their campuses leaving massive amounts of vacant space on the market. The trend will likely continue through 2018 and beyond. 102 and 104 Corporate Park Drive in White Plains are expected to have over 200,000 square feet of available space as early as next quarter. Histogenics bought the buildings in 2015, but never moved in. They will now attempt to lease the space out.

Outlook

The additional space being vacated at 102 and 104 Corporate Park Drive will increase the already high vacancy rate for Westchester County. However, White Plains should be able to fill the available space relatively quickly. A Wegman’s Super Store is being developed along with the new residential construction. That combined with the existing Life Time Fitness facility will make this newly available space attractive to tenants in the market. Expect the adaptive change of use phenomenon to continue throughout Westchester County while the demand for new office space remains limited.

Fundamentals	Forecast
YTD net absorption	-198,112 s.f. ▼
Under construction	0 s.f. ►
Total vacancy	22.5% ▲
Average asking rent (gross)	\$26.35 p.s.f. ►
Concessions	Stable ►



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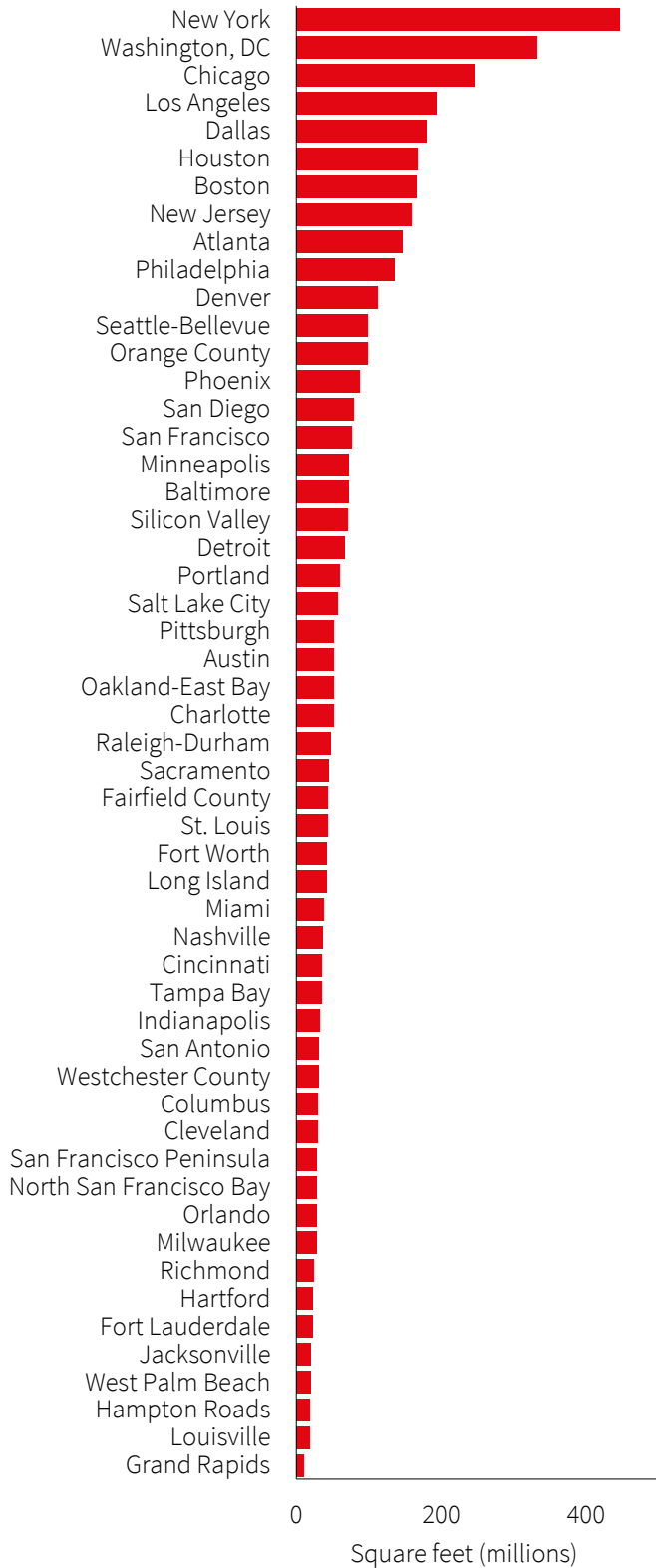
United States employment

Market	Total nonfarm jobs 12-month net change (000s)	Total nonfarm jobs 12-month percent change	Office jobs* 12-month net change (000s)	Office jobs* 12-month percent change	Unemployment (2018)	Unemployment (2017)	12-month unemployment change (bp)
Atlanta	52.6	2.0%	-2.1	-0.3%	4.3%	5.0%	-70
Austin	37.3	3.7%	16.5	6.4%	3.0%	3.5%	-50
Baltimore	17.2	1.3%	4.8	1.5%	4.6%	4.6%	0
Boston	24.5	0.9%	12.6	1.7%	3.5%	3.8%	-30
Charlotte	31.0	2.7%	6.8	2.2%	4.3%	4.7%	-40
Chicago	32.0	0.7%	6.5	0.6%	5.2%	5.4%	-20
Cincinnati	4.9	0.5%	-2.9	-1.2%	4.0%	4.8%	-80
Cleveland	3.0	0.3%	-0.2	-0.1%	5.7%	7.1%	-140
Columbus	10.6	1.0%	1.6	0.6%	3.8%	4.6%	-80
Dallas	70.4	2.8%	15.4	2.0%	3.7%	4.1%	-40
Denver	36.9	2.6%	11.8	2.9%	3.1%	2.9%	20
Detroit	17.8	0.9%	3.0	0.6%	4.6%	5.2%	-60
Fairfield County	-1.6	-0.4%	-1.4	-1.2%	5.0%	5.4%	-40
Fort Lauderdale	9.8	1.2%	3.8	1.7%	3.5%	4.2%	-70
Fort Worth	25.6	2.5%	7.6	4.3%	3.6%	4.2%	-60
Grand Rapids	11.2	2.1%	2.4	2.2%	4.0%	3.8%	20
Hampton Roads	1.6	0.2%	0.4	0.2%	3.7%	4.7%	-100
Hartford	5.3	0.9%	1.2	0.9%	5.1%	5.3%	-20
Houston	67.1	2.2%	30.3	4.6%	4.7%	5.6%	-90
Indianapolis	18.8	1.8%	11.3	4.7%	3.4%	3.9%	-50
Jacksonville	18.6	2.7%	4.5	2.5%	3.5%	4.3%	-80
Long Island	15.6	1.2%	4.0	1.6%	5.1%	4.8%	30
Los Angeles	61.5	1.4%	-0.6	-0.1%	4.5%	5.0%	-50
Louisville	7.3	1.1%	1.5	1.1%	3.9%	4.8%	-90
Miami	17.5	1.5%	4.5	1.7%	4.7%	4.8%	-10
Milwaukee	6.5	0.8%	0.0	0.0%	3.2%	4.1%	-90
Minneapolis	14.9	0.8%	-4.8	-1.0%	3.3%	3.9%	-60
Nashville	21.7	2.3%	15.1	3.8%	2.7%	3.4%	-70
New Jersey	8.4	0.7%	1.5	0.5%	4.8%	4.9%	-10
New York	85.7	1.9%	24.4	1.8%	4.6%	4.2%	40
North Bay	2.1	1.8%	-1.0	-4.0%	2.5%	3.2%	-70
Oakland-East Bay	25.3	2.2%	3.9	1.5%	3.3%	4.1%	-80
Orange County	31.9	2.0%	9.8	2.2%	3.1%	3.8%	-70
Orlando	43.8	3.5%	11.7	3.7%	3.4%	4.1%	-70
Philadelphia	25.8	0.9%	3.7	0.5%	4.9%	5.1%	-20
Phoenix	60.0	3.0%	13.1	2.3%	4.4%	4.4%	0
Pittsburgh	14.4	1.3%	0.8	0.3%	5.3%	6.0%	-70
Portland	20.5	1.8%	-0.4	-0.2%	4.0%	4.1%	-10
Raleigh-Durham	16.2	2.7%	8.5	5.2%	3.9%	4.3%	-40
Richmond	4.8	0.7%	1.0	0.6%	3.5%	4.3%	-80
Sacramento	24.7	2.6%	-0.6	-0.3%	4.2%	5.3%	-110
Salt Lake City	17.7	2.5%	1.9	1.0%	3.2%	3.4%	-20
San Antonio	24.6	2.4%	2.7	1.1%	3.4%	3.9%	-50
San Diego	27.9	1.9%	9.9	3.0%	3.5%	4.4%	-90
San Francisco	18.2	1.6%	19.1	4.5%	2.5%	3.1%	-60
Seattle-Bellevue	60.9	3.1%	19.7	4.1%	4.3%	4.2%	10
Silicon Valley	31.2	2.9%	17.2	5.1%	3.0%	3.7%	-70
St. Louis	5.9	0.4%	5.8	1.8%	3.8%	4.4%	-60
Tampa	30.6	2.3%	12.2	3.3%	3.6%	4.3%	-70
Washington, DC	44.8	1.4%	20.1	2.1%	3.6%	4.0%	-40
West Palm Beach	3.3	0.5%	1.4	0.9%	3.7%	4.3%	-60
Westchester County	2.7	0.4%	2.1	1.5%	4.8%	5.2%	-40
United States	2,261.0	1.5%	589.0	1.9%	4.1%	4.5%	-40

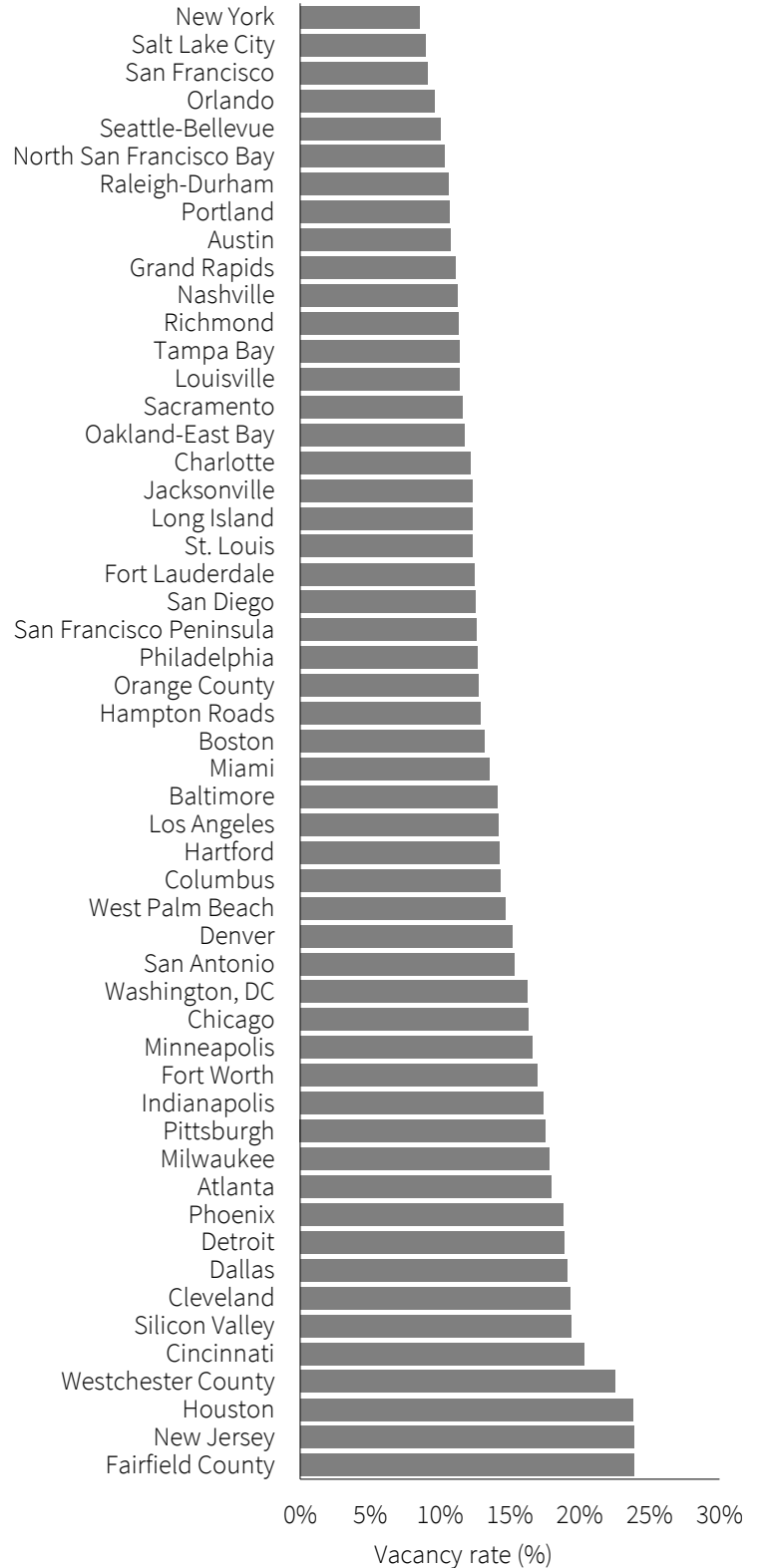
United States office statistics

Market totals (CBD and Suburban)	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of inventory)	Total vacancy (s.f.)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	Quarterly percent change rent	YTD completions (s.f.)	Under construction/ renovation (s.f.)
Atlanta	146,936,743	357,357	357,357	0.2%	26,336,150	17.9%	\$26.28	2.0%	947,893	1,883,441
Austin	51,868,418	127,890	127,890	0.2%	5,576,674	10.8%	\$38.65	3.1%	156,049	3,330,927
Baltimore	72,065,787	-34,330	-34,330	0.0%	10,170,807	14.1%	\$24.89	-0.8%	0	1,089,045
Boston	166,649,555	609,847	609,847	0.4%	21,920,336	13.2%	\$36.81	-0.4%	0	3,468,000
Charlotte	51,150,485	306,811	306,811	0.6%	6,240,799	12.2%	\$26.89	2.2%	120,000	2,290,016
Chicago	245,753,058	109,115	109,115	0.0%	40,140,282	16.3%	\$33.94	0.3%	45,000	7,845,725
Cincinnati	35,794,287	-105,906	-105,906	-0.3%	7,257,966	20.3%	\$19.22	-0.2%	55,000	88,000
Cleveland	29,491,084	133,236	133,236	0.5%	5,698,910	19.3%	\$19.35	0.3%	0	306,000
Columbus	29,673,730	10,118	10,118	0.0%	4,249,934	14.3%	\$19.89	0.8%	56,000	842,000
Dallas	180,158,413	1,371,447	1,371,447	0.8%	34,337,645	19.1%	\$27.62	1.5%	2,109,599	4,493,077
Denver	112,230,856	408,154	408,154	0.4%	17,053,389	15.2%	\$29.50	4.3%	1,338,124	2,683,147
Detroit	67,520,823	-75,203	-75,203	-0.1%	12,769,511	18.9%	\$19.16	0.8%	0	950,528
Fairfield County	43,252,855	-374,025	-374,025	-0.9%	10,331,391	23.9%	\$36.55	-3.6%	0	0
Fort Lauderdale	22,365,177	-30,836	-30,836	-0.1%	2,785,354	12.5%	\$31.45	2.8%	27,744	84,098
Fort Worth	41,977,926	364,969	364,969	0.9%	7,120,869	17.0%	\$22.85	-0.4%	55,000	3,020,839
Grand Rapids	10,948,833	99,317	99,317	0.9%	1,213,593	11.1%	\$17.76	2.0%	0	174,000
Hampton Roads	19,005,482	-96,703	-96,703	-0.5%	2,444,339	12.9%	\$19.70	2.3%	0	379,600
Houston	167,690,845	-1,288,450	-1,288,450	-0.8%	39,951,649	23.8%	\$30.80	0.8%	104,579	1,654,682
Indianapolis	32,835,696	168,279	168,279	0.5%	5,698,701	17.4%	\$20.33	2.0%	0	80,000
Jacksonville	20,183,667	-30,084	-30,084	-0.1%	2,480,198	12.3%	\$20.00	1.4%	0	423,700
Long Island	41,918,300	-14,862	-14,862	0.0%	5,165,482	12.3%	\$26.02	-0.1%	0	0
Los Angeles	192,843,492	112,696	112,696	0.1%	27,331,040	14.2%	\$41.40	3.9%	375,568	2,159,259
Louisville	18,519,765	4,214	4,214	0.0%	2,116,011	11.4%	\$17.63	-0.6%	32,500	618,810
Miami	37,640,777	40,355	40,355	0.1%	5,097,629	13.5%	\$37.77	1.1%	123,452	690,362
Milwaukee	27,665,196	-71,792	-71,792	-0.3%	4,921,065	17.8%	\$19.51	-2.3%	0	633,087
Minneapolis	72,530,943	269,499	269,499	0.4%	12,040,937	16.6%	\$26.33	-0.7%	56,000	1,608,973
Nashville	36,281,816	-77,463	-77,463	-0.2%	4,067,593	11.2%	\$27.27	5.8%	0	1,954,709
New Jersey	158,518,048	-1,001,942	-1,001,942	-0.6%	37,857,948	23.9%	\$27.67	3.5%	0	447,732
New York	446,109,541	1,638,265	1,638,265	0.4%	38,075,668	8.5%	\$74.99	1.1%	683,398	15,388,667
North San Francisco Bay	28,499,844	201,761	201,761	0.7%	2,943,332	10.3%	\$27.24	-0.9%	0	104,000
Oakland-East Bay	51,303,020	28,155	28,155	0.1%	6,033,161	11.8%	\$44.76	5.4%	0	1,905,258
Orange County	97,702,972	65,926	65,926	0.1%	12,469,764	12.8%	\$35.16	2.9%	0	976,967
Orlando	27,820,671	45,110	45,110	0.2%	2,672,453	9.6%	\$23.45	2.9%	0	547,800
Philadelphia	135,475,202	-81,166	-81,166	-0.1%	17,188,352	12.7%	\$26.43	0.6%	330,732	3,412,270
Phoenix	86,912,175	265,974	265,974	0.3%	16,366,192	18.8%	\$25.44	0.6%	86,174	2,193,398
Pittsburgh	52,115,780	-21,941	-21,941	0.0%	9,156,137	17.6%	\$24.04	2.5%	0	812,053
Portland	60,491,298	-10,030	-10,030	0.0%	6,466,443	10.7%	\$28.76	1.9%	338,247	1,057,016
Raleigh-Durham	48,150,905	153,505	153,505	0.3%	5,085,275	10.6%	\$24.61	4.1%	183,835	2,636,251
Richmond	24,233,284	-100,222	-100,222	-0.4%	2,737,535	11.3%	\$19.72	0.6%	32,040	0
Sacramento	44,555,761	130,205	130,205	0.3%	5,172,264	11.6%	\$23.66	0.1%	0	97,000
Salt Lake City	57,606,204	120,379	120,379	0.2%	5,173,693	9.0%	\$23.24	2.7%	318,000	1,642,580
San Antonio	31,084,022	-72,323	-72,323	-0.2%	4,758,011	15.3%	\$23.07	0.7%	0	1,395,283
San Diego	79,925,630	-16,817	-16,817	0.0%	10,039,403	12.6%	\$33.48	3.7%	0	1,289,402
San Francisco	75,996,610	408,909	408,909	0.5%	6,924,914	9.1%	\$74.64	0.6%	1,420,081	5,263,942
San Francisco Peninsula	28,657,329	59,883	59,883	0.2%	3,608,420	12.6%	\$64.44	0.3%	205,222	1,801,535
Seattle-Bellevue	98,939,337	192,856	192,856	0.2%	9,915,801	10.0%	\$38.26	5.5%	490,645	4,821,203
Silicon Valley	70,622,781	-1,522,070	-1,522,070	-2.2%	13,670,463	19.4%	\$49.92	0.6%	708,606	2,964,101
St. Louis	42,745,445	-61,414	-61,414	-0.1%	5,270,405	12.3%	\$20.11	3.8%	0	825,735
Tampa Bay	34,893,619	276,834	276,834	0.8%	3,981,373	11.4%	\$25.28	2.3%	0	416,554
Washington, DC	332,015,221	965,350	965,350	0.3%	53,861,515	16.2%	\$41.34	0.0%	552,781	12,221,582
West Palm Beach	19,971,415	-5,169	-5,169	0.0%	2,929,174	14.7%	\$31.57	0.2%	37,550	0
Westchester County	30,250,681	-198,112	-198,112	-0.7%	6,817,387	22.5%	\$26.35	-1.8%	0	0
United States totals	4,162,240,194	3,689,620	3,689,620	0.1%	616,924,741	14.8%	\$33.78	1.6%	10,989,819	105,175,638

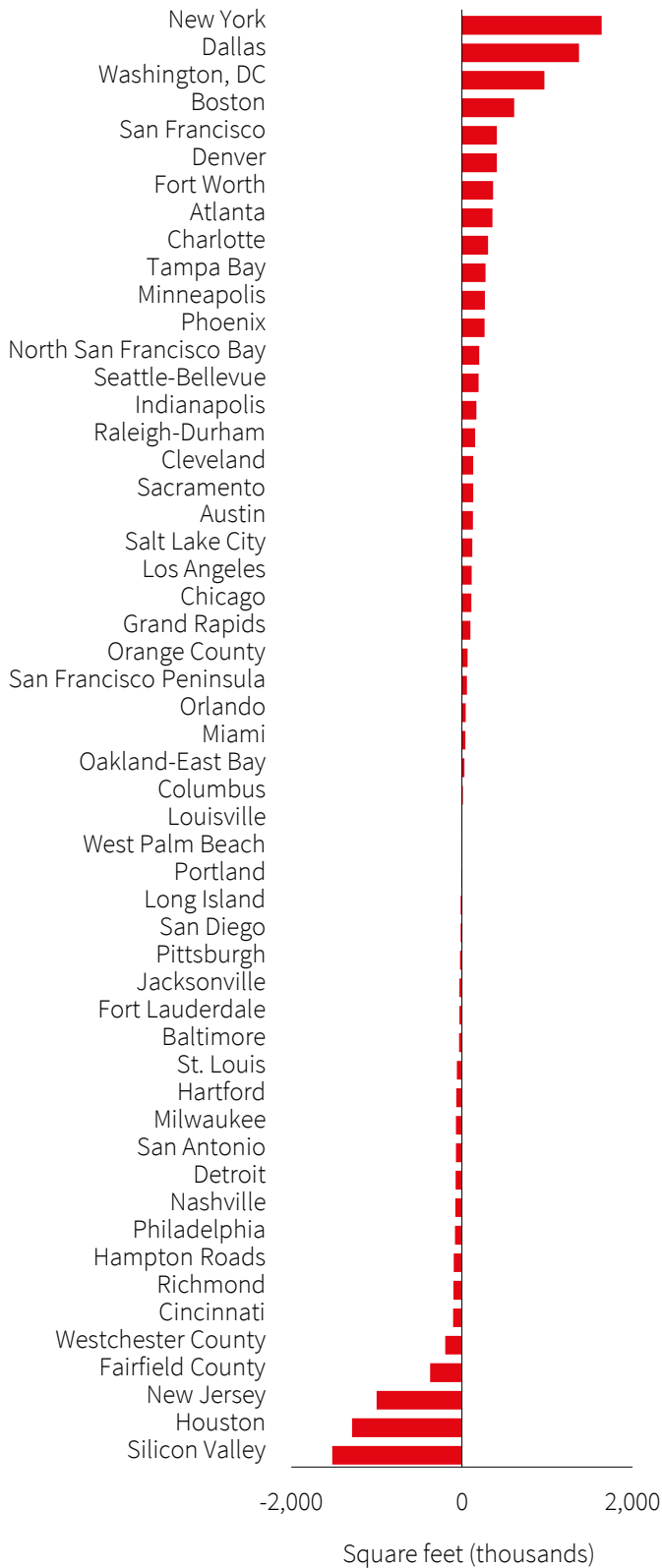
Inventory (s.f.)



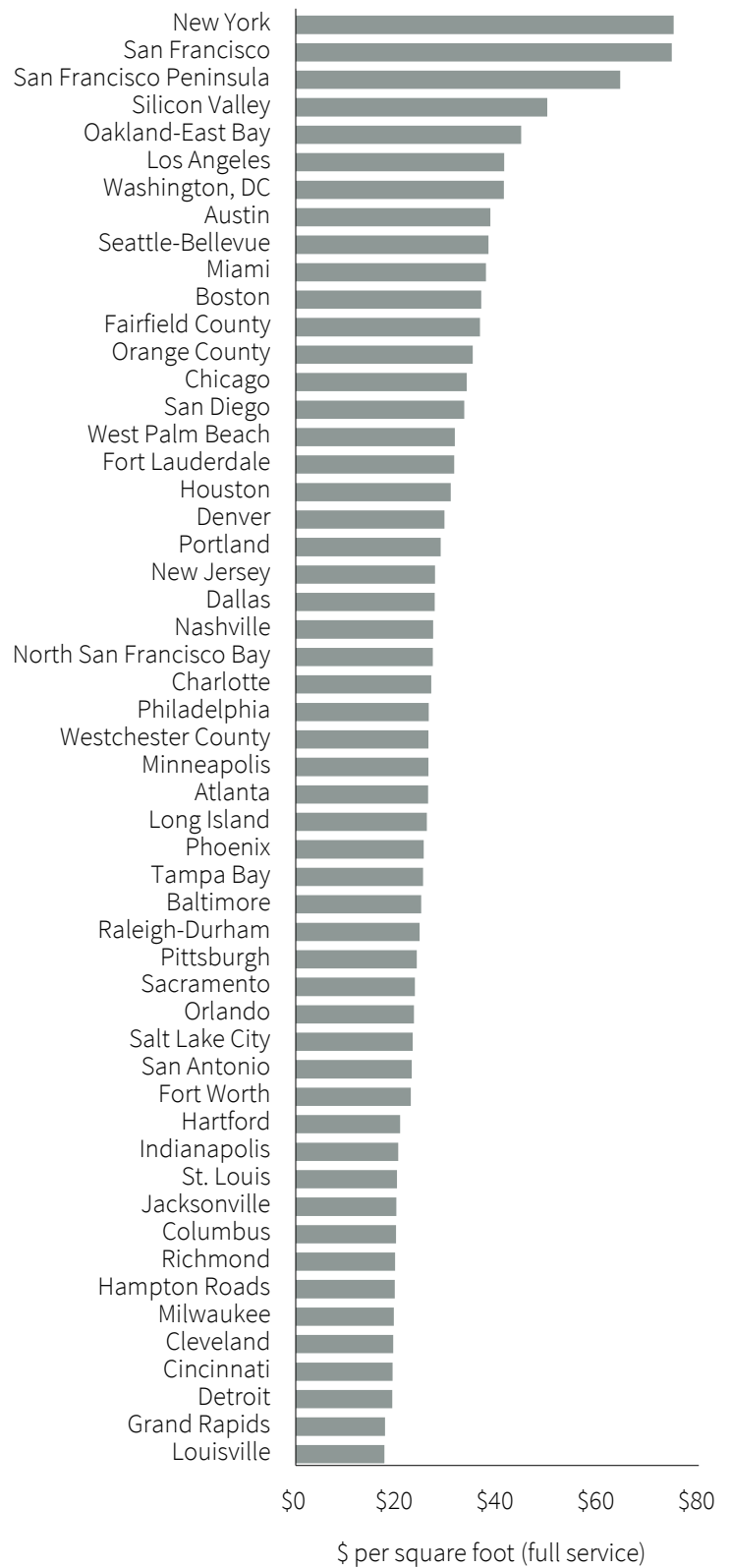
Total vacancy rates (including sublease)



YTD total net absorption
(including sublease)

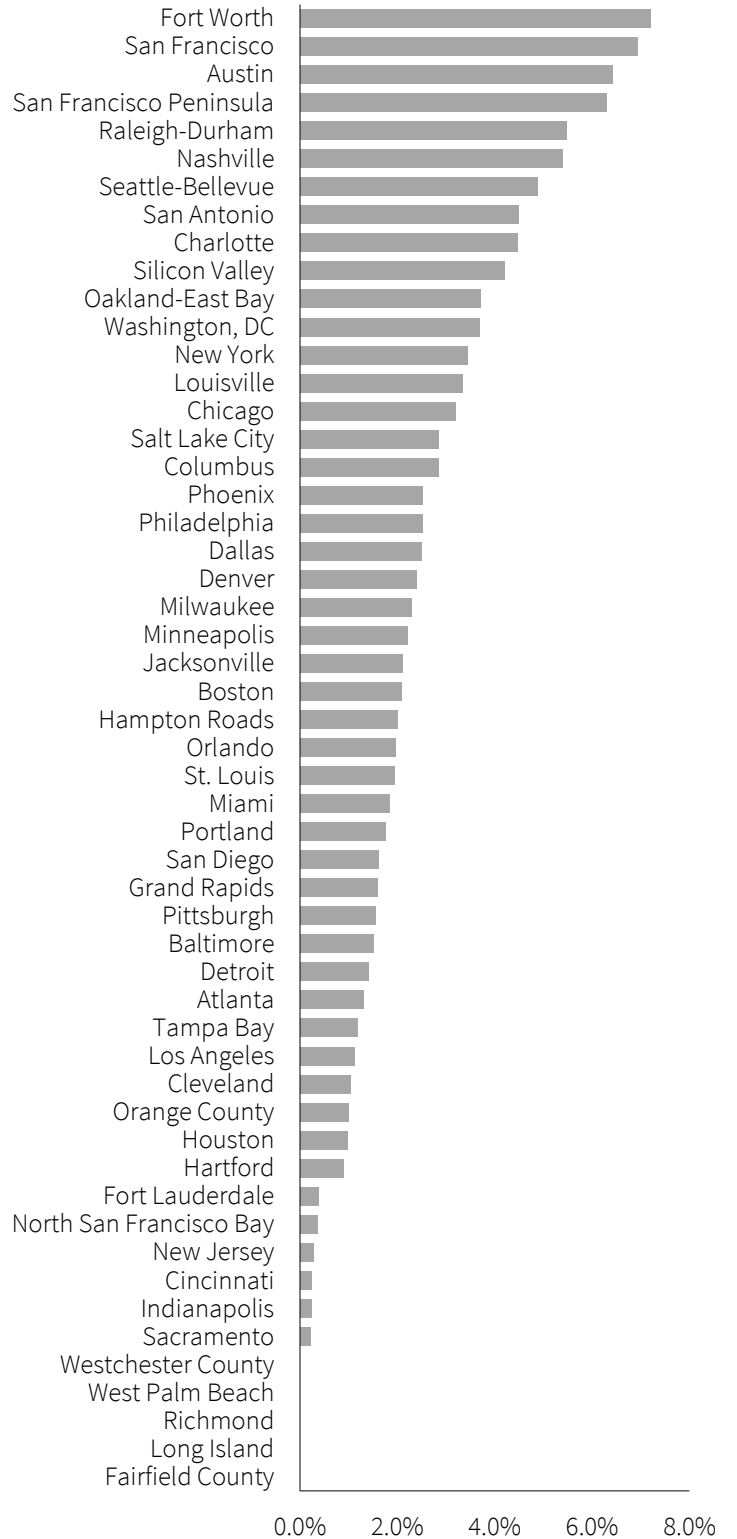
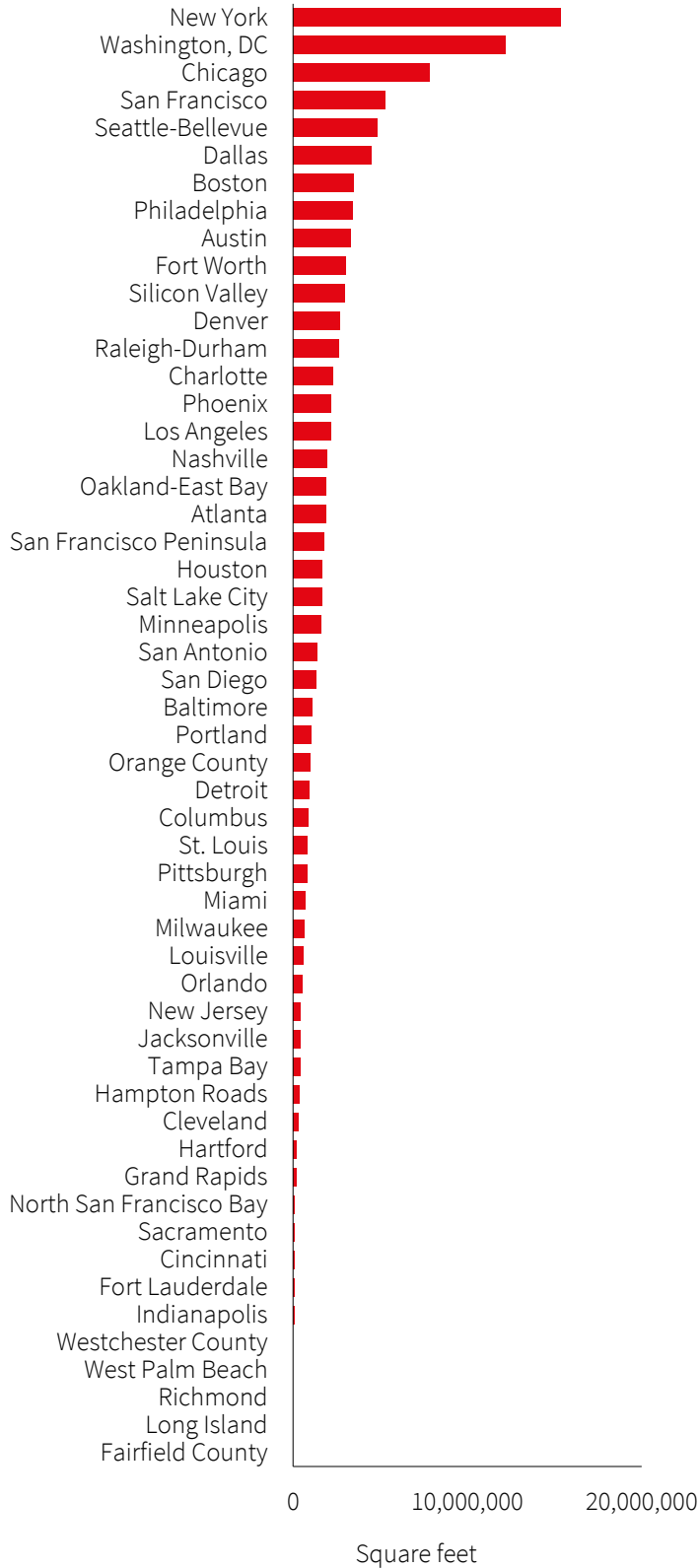


Marketed rents



Under construction (s.f.)

Under construction as % of inventory



Want more information?



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