Office Perspective: The NERDS

U.S. Research | Winter 2016

With momentum behind them, 2016 will be the year of the NERDS for leasing and investment

When we introduced the NERDS last year it was in response to a question we're frequently asked: Which markets are next? The NERDS emerged as relative hidden gems across a landscape of booming markets.

Today the NERDS remain hotbeds of corporate expansion and population migration, but as demand grows locally, so too does pricing, and the window to catch these markets on the upswing is beginning to narrow.

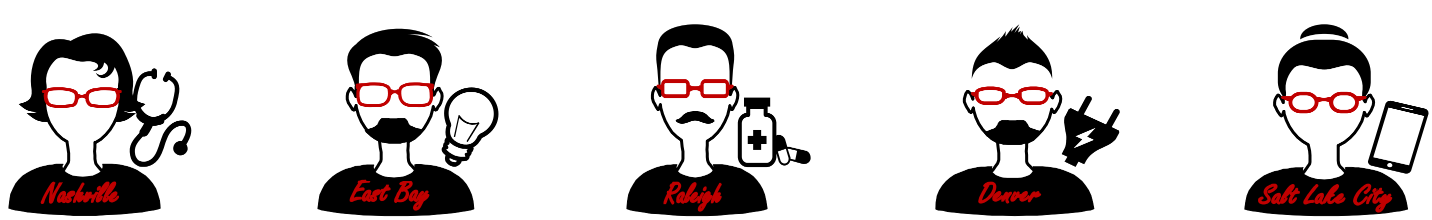
In Nashville, East Bay and Denver strong tenant demand led to annual increases in per-square-foot sales pricing of 37, 40, and 28 percent, respectively, and cap rates compressed across all but Raleigh-Durham as investment activity accelerated.

Moving into 2016, new supply supported by a pipeline of expanding tenants will continue to fuel growth and increase value across the NERDS markets, but as we move into the later stages of this cycle, room for that growth will be limited to the next 18 to 24 months as market conditions begin to peak and soften.

At the end of 2014, we presented five office markets to watch out for during the current cycle as hotspots for growth: Nashville, the East Bay, Raleigh, Denver and Salt Lake City, more popularly known as…the NERDS. Over the course of 2015, demographics, leasing and investment trends validated these markets' place in the commercial real estate landscape, outperforming the market on numerous metrics and remaining attractive locations for talent to migrate and companies to expand.

In 2015, NERDS markets recorded occupancy growth of 7.9 million square feet, equivalent to 2.7 percent of inventory and 1.9x faster than the United States overall. Similarly, large leasing activity from companies such as Anadarko and URS in Denver, Dell in Nashville, SAP in the East Bay, Allscripts in Raleigh and HealthEquity in Salt Lake City have contributed to increased demand for a dwindling amount of space. Vacancy in NERDS markets remains well below average at just 10.2 percent on aggregate, 450 basis points below the U.S. rate of 14.7 percent. In Nashville and Salt Lake City, market-wide vacancy is now in the single digits, while CBDs are even tighter.

This combination of inbound and organic demand and minimal supply, compounded by underbuilding due to the effects of the recession (until recently), is pushing rents up in NERDS markets. Remaining less expensive than typical space nationally, the East Bay has become the one exception to the rule resulting from its proximity to expensive Bay Area neighbors, growing demand and an empty development pipeline. Rent growth over the past year has averaged 5.2 percent for NERDS markets (+18.0 percent since 2010), with even faster rates of increase for CBD and Class A properties due to the flight to quality and movement into urban cores.

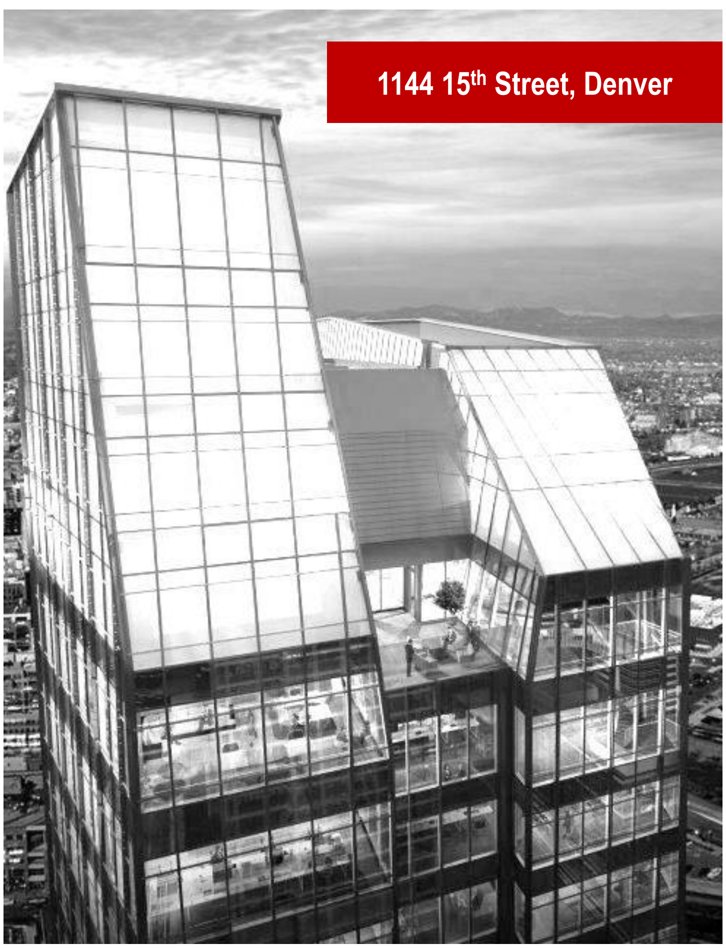


Developers are responding to supply constraints with the most confidence since before the recession

Upward pressure on rents has made development more feasible than in previous years: more than 8.9 million square feet of space is under construction, with all markets except the East Bay witnessing both speculative and build-to-suit activity. High-profile developments such as 1144 15th Street in Denver, 111 South Main Street in Salt Lake City and the Bridgestone headquarters in Nashville are all skyline-shaping projects, and we don't expect construction to ease until 2017 as new space begins to satisfy demand.

Among mid-sized geographies, the NERDS have also been some of the most proactive in terms of revitalizing their CBDs and, in some cases, transit-accessible suburbs, providing additional catalysts for further investment and migration. Oakland's Uptown Station has helped to provide critical residential mass for companies such as Uber to locate to the area, while Denver and Salt Lake City have actively redeveloped underutilized parcels in the Union Station and City Creek Center areas, respectively, turning them into lively, mixed-use communities. This proactive and concerted planning has helped to give these cities further traction and set them apart from their peers.

Overall, we expect that NERDS markets will remain some of the most active throughout the remainder of the cycle. As barriers to entry in primary geographies continue to grow, the NERDS are primed to absorb a greater share of growth. In addition, similar geographies, such as Austin, Charlotte, Fort Lauderdale, Minneapolis, Pittsburgh and Portland will complement the NERDS as engines of output and innovation.



NERDS rising to the top for secondary market institutional exposure

Institutional interest and activity in the NERDS is rising as demand for yield and the chase for markets on the upswing increases. As a result, institutional investment in the NERDS increased from 16.0 percent of acquisitions in 2013 to 40.0 percent in 2014. Over the past three years, institutional investment has averaged 30.0 percent in NERDS, compared to 43.0 percent of acquisitions in primary markets.

As these markets evolve with corporate relocations and expansions, taking advantage of more attractive occupancy costs and an increasing talent pool, institutional buyers are turning to the NERDS and focusing on top-tier product with 89.0 percent of acquisitions in Trophy and Class A buildings. As Goldman Sachs continues to expand their second largest U.S. office in Salt Lake City, institutional investors are taking notice. In mid-2014 Salt Lake City's first institutional purchase was made at 222 Main Street for $170.5 million by KBS Realty Advisors. Additionally, in the past 12 months, KBS Realty Advisors has been the most active NERDS investor accounting for $324.5 million of investment in Denver and East Bay.

While the NERDS occupier and owner landscape is increasingly akin to primary markets, where they differ is in foreign investment. Canada's Ivanhoe Cambridge and Kuwait's Arzan Financial Group have been the only foreign buyers since 2013, active in Denver and Raleigh-Durham, respectively. This is unlike recent activity in primary markets, where foreign investment is reaching unprecedented levels.

Though growth in investment sales has not followed the same strong upward trajectory that was recorded across the U.S. in 2015, the NERDS still saw an increase in sales volume from $3.1 billion to $3.8 billion. Additionally, liquidity is strong in NERDS markets, having increased consistently in the past two years. Analyzing the scale of investment activity relative to the total market size, the NERDS are now outperforming the U.S. market as a whole as well as against peer secondary markets.

Overall, the NERDS offer attractive yields relative to primary office markets like San Francisco and New York, which has supported competition for product. Compared to primary markets as a whole, the NERDS offer a 53-basis-point discount in cap rate, while also at a 34-basis-point premium to secondary market peers. This is on par with 2007 pricing dynamics. Investors are able to acquire core product in markets with strong economic and leasing fundamentals, without sacrificing yield which would be necessary in primary markets. However, the NERDS are compressing at a faster rate than the rest of the U.S. office market—core product is pricing at a premium to the prior peak.

In a fast-accelerating investment environment, the outlook for NERDS remains optimistic and historically low volatility compared to primary markets present a strong case for diversification into the NERDS from primary markets, which will complement broader portfolios.

Investor sentiment continues to strengthen across the NERDS to varying degrees

Nashville

Nashville is one of the few markets tracked by JLL that has not exceeded prior peak pricing, indicating there may be room for additional appreciation. Institutions have been the most active buyer type this year, purchasing seven properties at $160 million in value. This could lead to a fundamental shift in Nashville's buyer landscape. In 2015, this momentum has driven significant yield compression in Nashville, down 81 basis points to 6.1 percent.

East Bay

Over 2013 and 2014, activity in the East Bay was concentrated in Class A space. Through 2015, this shifted towards more activity in Class B buildings, and this is likely to continue. Most recently, Uber acquired an asset for occupancy in Uptown Station in Downtown Oakland. East Bay has seen less institutional investment than the rest of the NERDS. However, with rents in peer Bay Area markets some of the highest in the U.S., relocations to the East Bay rising and rents increasing in the market, the investment case for East Bay acquisitions is strengthening.

Raleigh-Durham

Unlike other NERDS markets, Raleigh is recording a softening in pricing and is now trading at cap rates higher than the secondary markets as a whole. However, Raleigh recorded the largest increase in transaction volume in the year, increasing from $493.0 million in 2014 to $1.2 billion. This figure was elevated due to the joint venture purchase by Trinity Capital, Starwood Capital Group and Vanderbilt Capital Advisors of Duke Realty's cross-market portfolio - $500.0 million of which was located in Raleigh.

Denver

Denver has been one of the strongest markets with a notable uptick in institutional investment, reaching 42.2 percent in 2015. In 2014, institutions overtook developers/property companies as the most active buyer segment, accounting for 48 percent of activity in the year. The market also recorded a significant compression in cap rates over 2014, having compressed 43 basis points with recent stabilization in 2015 at 4.9 percent. Continued cap rate compression is unlikely with the market having reached prior peak pricing levels in 2015.

Salt Lake City

Salt Lake City is the smallest market for investment activity of the NERDS; however, this is increasing. In 2014, institutional owners made their entry into the market with the purchase of the Trophy asset 222 Main Street. This is the only Trophy asset to have transacted since 2013. This asset, which is Goldman Sachs' largest corporate office outside of New York, represents the diversification and growth in the tenant base of the market, which will attract further investment.

The NERDS are hot, but where are some other places to watch?

Over the course of 2015, we saw a strengthening of fundamentals across the country and most markets built upon the foundations set in 2013 and 2014 for further growth. In particular, certain geographies have sped ahead in particular for a host of reasons:

- **Atlanta:** Already well known for its highly-diversified economy continues to be one of the top destinations for corporate relocation and expansion nationally. Over the past two years, the metro area has created 178,400 jobs at a rate of 7.2 percent, with professional and business services (+10.8 percent) performing particularly well. Recent moves and expansions by companies such as Mercedes-Benz, State Farm and Cox signify corporate confidence in the market. Additionally, submarkets such as Midtown have embraced mixed-use development more than nearly anywhere else in the South.
- **Boston:** GE's announcement that it will be moving its headquarters from their long-time location of Fairfield, Connecticut, to the core of Boston reverberated significantly throughout the business community, but is a representation of Boston's strengths in research, innovation, life sciences, tech and skilled and technical professional services. Office-using job growth of 2.8 percent slightly exceeds the national average; the region's strongest employment subsectors are construction (+6.8 percent), professional and business services (+3 percent) and financial activities (+2.8 percent).
- **Charlotte:** Known as the headquarters of Bank of America, Charlotte is one of the United States' flourishing secondary markets. 6.8-percent job creation over the past 24 months (9.2 percent for financial activities) translated to 1.5 million square feet of occupancy growth, while large leasing activity has also rebounded.
- **Portland:** Companies priced out of the Bay Area and Seattle have increasingly looked to Portland as the next logical location for expansion and talent acquisition and retention. Over the past two years, net absorption in Portland has totaled nearly 2.1 million square feet, with rents rising by 16.1 percent over the same time period. The city's core is replete with creative space and historic properties ripe for adaptive reuse and the region's strong focus on infrastructure investment and planning will bode well for asset appreciation and tenant appeal.
- **Tampa:** Outside of Miami, Tampa has shaped into a key business destination in Florida. Still driven by ancillary services such as call centers as well as tourism, Tampa's year-end net absorption of 1.2 million square feet is significantly higher than peer markets, leading to 4.3 percent rent growth and a drop in vacancy to just 14.1 percent. We expect to see continued improvements from the education, health, leisure and construction sectors.

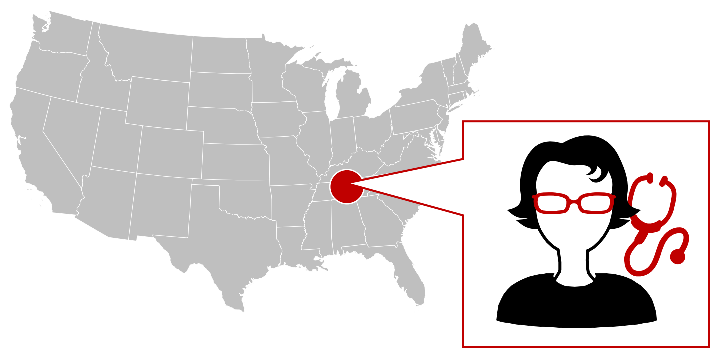
Nashville

Music City…or the Eds-and-Meds City?

Long-known as the country music capital of the world, Nashville has more recently been recognized for its growth in white-collar, tech and manufacturing jobs, its millennial population and real estate growth. According to the Nashville Area Chamber of Commerce, 37 relocations and 117 expansions were announced in the 2014-2015 fiscal year. This growth in the market will bolster the city's economy by introducing almost 18,000 new jobs and by feeding it $2.7 billion in capital investment dollars.

With over 120 cranes visible across its skyline, construction activity has hit new heights. There are over two million square feet of office space and roughly 3,800 apartment units currently underway. Additionally, Nashville has an expanding hotel industry to accommodate its rapid growth in tourism, which currently generates over $4.5 billion in revenues per year. Some of the more notable office projects are: the Bridgestone Americas expansion, which will present a $232-million, 500,000-square-foot building and 600 new jobs, and the relocation of Nissan North America, which will introduce a $160 million, 1.5-million-square-foot facility and more than 1,000 jobs; and the Under Armour relocation, which will produce a $100-million, 1-million-square-foot building and 1,500 new jobs.

Nashville's biggest industry is education and health services, which employs roughly 200,000 people directly in the city and another 200,000 people beyond the city. Nashville's largest employer, Vanderbilt University and Medical Center employs over 20,000 people.



With a strong economic and business foundation, Nashville's office market is one of the tightest in the country, with virtually no Class A supply to speak of. As a result, there isn't a submarket in the area that isn't benefiting from strong demand. In particular, Brentwood and Cool Springs continue to attract the most tenant interest, but investors are increasingly looking downtown to renovate older buildings and create new quality supply in the constrained market for a lower capital investment than ground-up construction.

Real estate rents across all asset classes are hitting historic highs due to both demand and high construction costs. That pricing pressure isn't expected to wane anytime soon as all but 18.1 percent of the nearly three million square feet under construction has already been leased, meaning vacancy will remain very low for the foreseeable future.

ECONOMY AND DEMOGRAPHIC STATS

Population	Education
1,792,649 Metro population (2014)	**32.3%** Bachelor's or higher
+7.3% Growth since 2010	**+380bp** vs. U.S. average

Office employment	Living and income
224,400 PBS + finance + info	**$175,000** Median home value
24.3% % of total employment	**$52,779** Median household income

OFFICE STATS

Inventory	Vacancy
33,584,991 Overall inventory (s.f.)	**6.7%** Overall total vacancy rate
16,448,220 Class A inventory (s.f.)	**2.7%** Class A vacancy rate

Cost ($p.s.f.)	Development
$20.32 Overall asking rent	**2,840,446** Under construction (s.f.)
$26.45 Class A asking rent	**81.9%** Prelease %

INVESTMENT STATS

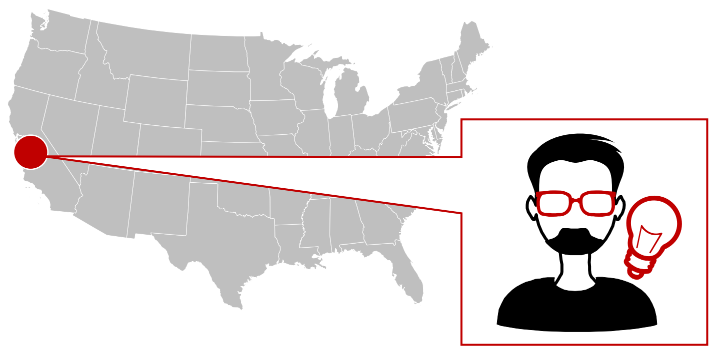
Total sales volume	Average $ p.s.f.
$717.0M All classes, 2015	**$137** All classes, 2015
N/A Class A, 2015	**N/A** Class A, 2015

Institutional penetration %	Average cap rate
35.1% All classes, 2015	**6.1%** All classes, Q3 2015
47.2% Class A, 2015	

East Bay

Not the next Brooklyn—the next East Bay

East Bay employment numbers are on a steady increase, especially in professional business services and healthcare. Anticipation of continued growth in the tech and biotech sectors is high with the recent purchase of Uptown Station by Uber in the third quarter of 2015, making it possible to grow by 3,000 employees in the East Bay. Additionally, the East Bay already has a viable labor pool in place due to proximity to the UC Berkeley campus as well as a plethora of incubators, accelerators, and tech workshops and classes marbled throughout the East Bay.



The East Bay is emerging into the Bay Area spotlight, proving to be a viable contender to its neighboring cities. Limited availabilities and rapidly increasing rental rates are pricing professional firms out of the city, prompting them to move their back-office operations across the bridge. While some are relocating entirely, several companies have seen the East Bay as an ideal place to expand and have opened satellite offices in the area. Currently tenant migration makes up more than one million square feet so far in the current cycle (since 2010), and a majority of these tenants are coming from San Francisco.

Due to the limited large blocks in Class A buildings in core submarkets, the focus for some tenants has shifted towards either Class B options in the Oakland Metro or submarkets along the North 680 Corridor and the Tri-Valley. These submarkets offer similar amenities in addition to the access to public transportation. Furthermore, expanding companies in the tech and life science industries will find options in the suburbs that could accommodate large users.

Outer-market tenant demand continues to follow the BART lines from San Francisco through the 680 Corridor. Proximity to public transit is one of the key requirements for companies who are looking to relocate. These markets have shown a significant increase in rental rates over the past 12 months. Notably, overall weighted rent growth in BART-centric submarkets along the 680 Corridor has increased by 10.1 percent year-over-year. The East Bay is experiencing lasting effects of the spillover, and corporate tenants with plans to relocate are willing to pay a premium for access to transportation and amenities.

ECONOMY AND DEMOGRAPHIC STATS

Population	Education
2,722,260 Metro population (2014)	**39.9%** Bachelor's or higher
+6.4% Growth since 2010	**+290bp** vs. U.S. average
Office employment	**Living and income**
257,200 PBS + finance + info	**$404,000** Median home value
23.3% % of total employment	**$78,756** Median household income

OFFICE STATS

Inventory	Vacancy
56,474,281 Overall inventory (s.f.)	**13.1%** Overall total vacancy rate
23,268,098 Class A inventory (s.f.)	**14.3%** Class A vacancy rate
Cost ($p.s.f.)	**Development**
$31.46 Overall asking rent	**0** Under construction (s.f.)
$35.94 Class A asking rent	**0.0%** Prelease %

INVESTMENT STATS

Total sales volume	Average $ p.s.f.
$751M All classes, 2015	**$235** All classes, 2015
$340.1M Class A, 2015	**$267** Class A, 2015
Institutional penetration %	**Average cap rate**
32.8% All classes, 2015	**4.9%** All classes, Q3 2015
72.6% Class A, 2015	

Raleigh-Durham

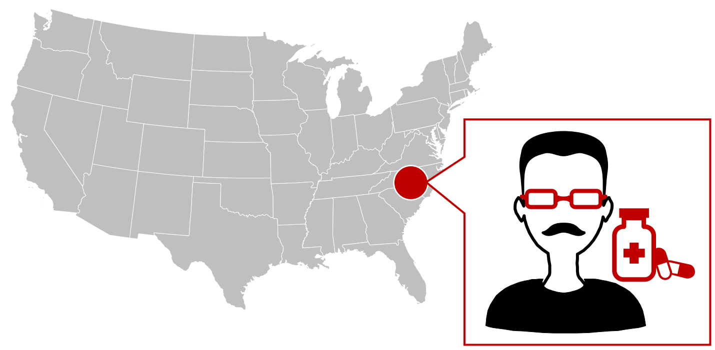
The research love triangle

The Triangle region is an eight-county region including the cities of Raleigh, Durham and Chapel Hill, with a total population of nearly 2.4 million. The Raleigh-Durham area is anchored by major academic institutions (University of North Carolina at Chapel Hill, Duke University, and North Carolina State University), and, as a result, is the beneficiary of nearly $1 billion in Federal research funding each year.

Focused on a pro-business approach to economic development, the population has grown by 46.0 percent since 2000 and the region has emerged as one of the best cities to live in the U.S. The regions varied economic development programs aim to boost employment, while offering guidance and favorable environment for business operations.

Raleigh-Durham's location in the Southeast has made it a hub for biotechnology and high-technology. The local office market, is a confluence of companies from the high-growth sectors of life sciences, high technology, and banking, finance and insurance.

Organic growth dominated 2015. Majority of growth consisted of local tenants across all industries consolidating and expanding in the area. Raleigh-Durham's Research Triangle Park continues to be at the center of it all holding a majority of 2015's Class A office expansions totaling over 250,000 square feet in office space while both Allscripts and SunTrust chose micro-market North Hills for its consolidation efforts.



The strong leasing activity of the past year consisted not only tier one sectors of biotechnology and high-technology but more recently closed out with banking and financial service firms noted above in the Six Forks/Falls of Neuse submarket.

The office market is expected to end the year with an astounding amount of positive absorption and office investment sales during the year. In 2015 the Triangle had a record-breaking year with over $3.8 billion in investment sales, including approximately $500 million from the Duke Realty Corp portfolio sale. The most product traded consisted of high quality, well-leased buildings in good locations across the Triangle. New office building deliveries and continued relocation or expansion of businesses in and into the region has helped further reduce the unemployment rate and office vacancy rate. Going forward, we anticipate these trends to continue through 2016.

ECONOMY AND DEMOGRAPHIC STATS

Population
- **1,785,680** Metro population (2014)
- **+9.2%** Growth since 2010

Education
- **42.0%** Bachelor's or higher
- **+570bp** vs. U.S. average

Office employment
- **221,900** PBS + finance + info
- **25.1%** % of total employment

Living and income
- **$208,800** Median home value
- **$61,919** Median household income

OFFICE STATS

Inventory
- **44,634,997** Overall inventory (s.f.)
- **26,766,874** Class A inventory (s.f.)

Vacancy
- **11.9%** Overall total vacancy rate
- **9.8%** Class A vacancy rate

Cost ($p.s.f.)
- **$20.53** Overall asking rent
- **$23.71** Class A asking rent

Development
- **629,214** Under construction (s.f.)
- **63.3%** Prelease %

INVESTMENT STATS

Total sales volume
- **$1,020B** All classes, 2015
- **$772.4M** Class A, 2015

Average $ p.s.f.
- **$143** All classes, 2015
- **$161** Class A, 2015

Institutional penetration %
- **18.7%** All classes, 2015
- **3.6%** Class A, 2015

Average cap rate
- **6.0%** All classes, Q3 2015

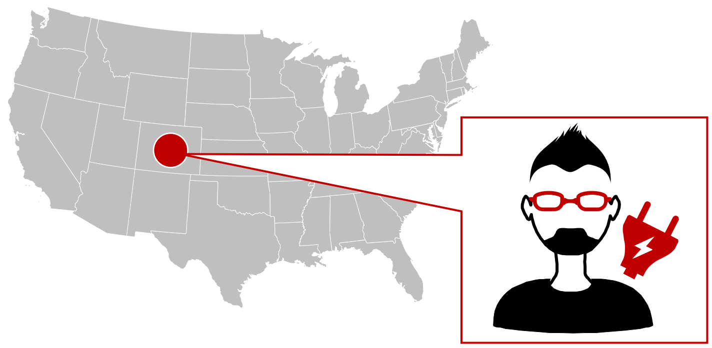
Denver

The mile-high city

Denver's 2.8 million residents make it the 21st largest U.S. metro area, and by decade's end, the population is expected to swell by 19.0 percent, reaching more than 3.3 million. Additionally, net domestic migration since 2011 has totaled nearly 71,000 new residents. Its growth rate has consistently outpaced the national clip every decade since the 1930s. To support an expanding population, Denver has regularly chosen to invest in infrastructure. Beginning in 2016, the regional public transit authority (RTD) will add almost 70 miles of new commuter and light rail lines, including the long-anticipated airport corridor—a direct connection between Union Station and the airport.

In the midst of one of its strongest economic cycles, the metro's unemployment rate rests at 3.2 percent—the nation's second lowest among large areas and trailing only Minneapolis-Saint Paul and Salt Lake City. Denver payroll levels measure 10.0 percent above pre-recession peak employment (April 2008), and average job growth here is outpacing the national level by a multiple of 1.5. Employment gains have been broad; led by construction and education and healthcare, all major sectors except information have added jobs in the past year.

Even in the face of rising costs and depressed oil prices, Denver's economy and business climate continue to largely fire on all cylinders. It boasts the eighth most diversified economy in the U.S., a five year-long string of employment gains, strong business confidence, a growing millennial population and a well-educated workforce.



Zeroing in on the office market, expect further, sustained user demand, falling vacancies and more record-high rents. The area increasingly draws interest from both domestic and international investors, thanks in part to its ability to offer a Class A location at a secondary market discount. Similar to select gateway markets, confidence in local leasing markets is spurring cap rate compression for core product in the CBD. Investors have delighted in a market at its tightest since 2000 and whose rents continue to set new record-highs, specifically in the LoDo, Platte River, RiNo and Cherry Creek neighborhoods. Tenants seeking space in these areas may soon find encouragement as more office product was completed in 2015 than in the previous four years combined, and an additional 1.5 million square feet is currently being built in these neighborhoods alone. The aforementioned avenues of growth will continue to position Denver as a leading target in which to park capital.

ECONOMY AND DEMOGRAPHIC STATS

Population

2,754,258
Metro population (2014)

+8.3%
Growth since 2010

Education

38.7%
Bachelor's or higher

+480bp
vs. U.S. average

Office employment

389,000
PBS + finance + info

27.9%
% of total employment

Living and income

$249,900
Median home value

$62,407
Median household income

OFFICE STATS

Inventory

107,390,870
Overall inventory (s.f.)

44,843,263
Class A inventory (s.f.)

Vacancy

13.1%
Overall total vacancy rate

11.4%
Class A vacancy rate

Cost ($p.s.f.)

$25.62
Overall asking rent

$31.53
Share of U.S. funding

Development

2,739,079
Under construction (s.f.)

24.1%
Prelease %

INVESTMENT STATS

Total sales volume

$2,246B
All classes, 2015

$1,130B
Class A, 2015

Average $ p.s.f.

$182
All classes, 2015

$218
Class A, 2015

Institutional penetration %

42.2%
All classes, 2015

38.4%
Class A, 2015

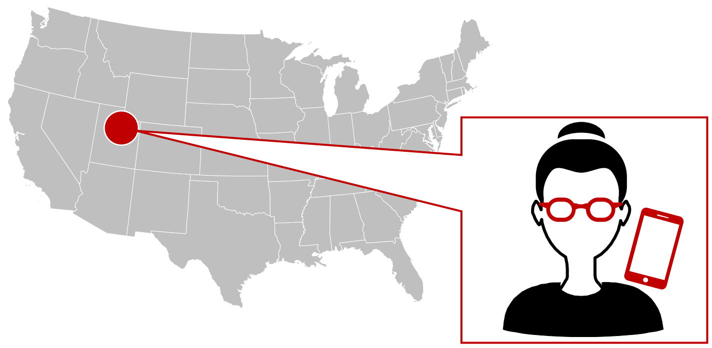
Average cap rate

4.9%
All classes, Q3 2015

Salt Lake City

You can ski on the Silicon Slopes

Already among the nation's steadiest growing economies, Salt Lake City's non-farm employment gains continue to outpace the national rate of growth. Over the last 12 months, the metro has added jobs at a 3.7-percent clip versus the U.S. level of 2 percent. SLC's unemployment rate has measured below the national average every month since February 2004. Through September, its 3.1 percent unemployment rate was tied for lowest among all large metropolitan areas. Payrolls continue to swell beyond all-time highs. Nonfarm employment has climbed 17.1 percent since the recession—or 1.7 times the pace of national gains—and has been led by office-using sectors like professional and business services.



Critical to the current expansion has been the growth of its tech sector. In the last five years, industry employment has swelled by roughly 25.0 percent. Tech's high-paying jobs have translated into strengthening wage income, which, in turn, has buoyed the housing market. And Salt Lake City's tech future remains encouraging: more companies than ever are choosing to operate here, drawing like-kind businesses to the area and further growing what is fast becoming a cluster economy. If the metro can remain an attractive and affordable option, it remains poised to take advantage of potential losses that more traditional, considerably more expensive West Coast tech hubs will experience. Outside of tech, watch for the continued emergence of finance as an increasingly significant player in Salt Lake City; the industry's footprint will widen by a projected 4 percent in 2016.

Focusing on the office market, falling vacancy rates, growing demand from existing tenants, and entries by new-to-market businesses have combined to lift asking rents throughout the market over the last 18 months. While all geographies and asset classes have recorded rent gains, suburban properties in particular have been home to among the sharpest escalations. Rent growth has room to run: moving forward, further vacancy compression—especially among large-block class A availabilities—should push rates further still. The metro's development pipeline has remained hot, but new projects scheduled for delivery through the end 2016 are roughly 60 percent preleased. Projections for strong tenant demand and the present diminished availability of space options should result in additional announcements of projects to come—both speculative and built-to-suit.

ECONOMY AND DEMOGRAPHIC STATS

Population	Education
1,153,340 Metro population (2014)	**30.8%** Bachelor's or higher
+6.0% Growth since 2010	**+250bp** vs. U.S. average
Office employment	**Living and income**
216,100 PBS + finance + info	**$218,600** Median home value
24.1% % of total employment	**$60,329** Median household income

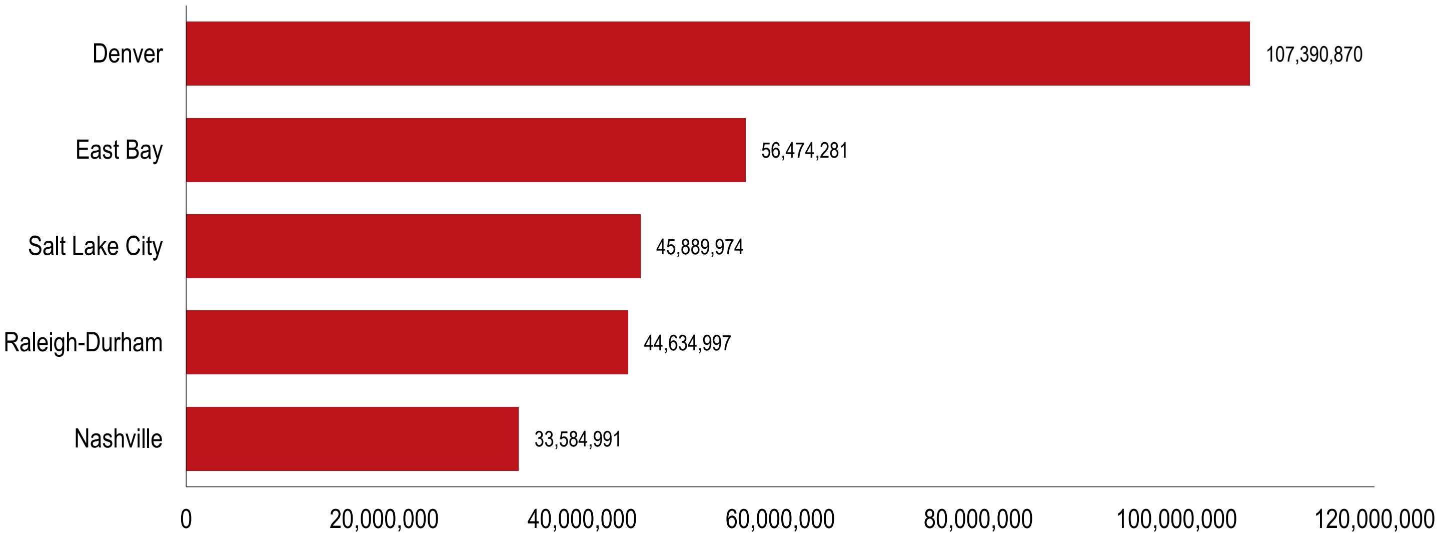
OFFICE STATS

Inventory	Vacancy
45,889,974 Overall inventory (s.f.)	**6.4%** Overall total vacancy rate
18,621,210 Class A inventory (s.f.)	**6.0%** Class A vacancy rate
Cost ($p.s.f.)	**Development**
$20.67 Overall asking rent	**2,695,442** Under construction (s.f.)
$24.86 Share of U.S. funding	**58.3%** Prelease %

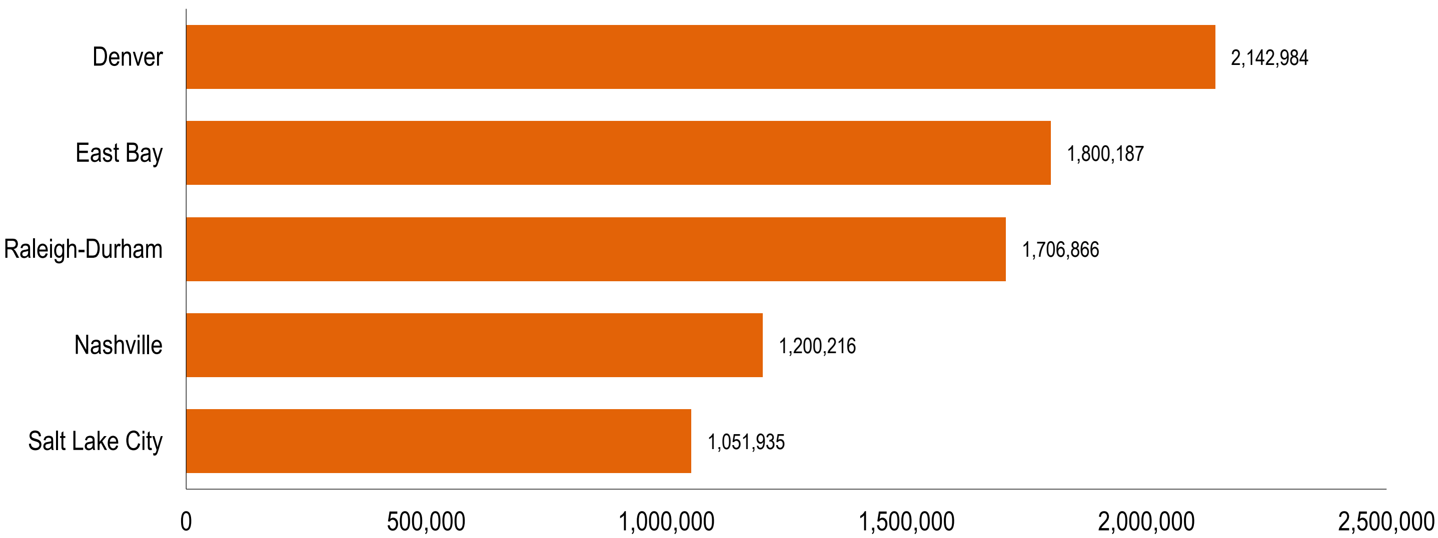
INVESTMENT STATS

Total sales volume	Average $ p.s.f.
$81.1M All classes, 2015	**$167** All classes, 2015
$15.9 Class A, 2015	**$222** Class A, 2015
Institutional investment %	**Average cap rate**
70.8% All classes, 2015	**5.5%** All classes, Q3 2015
0.0% Class A, 2015	

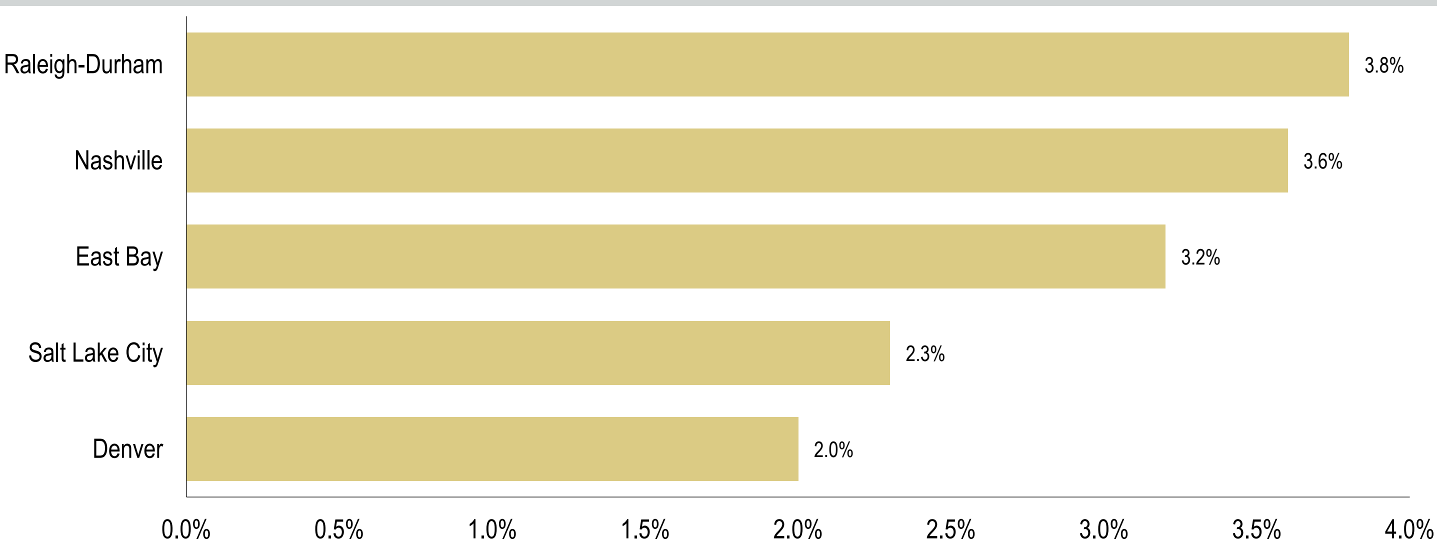
Inventory (s.f.)



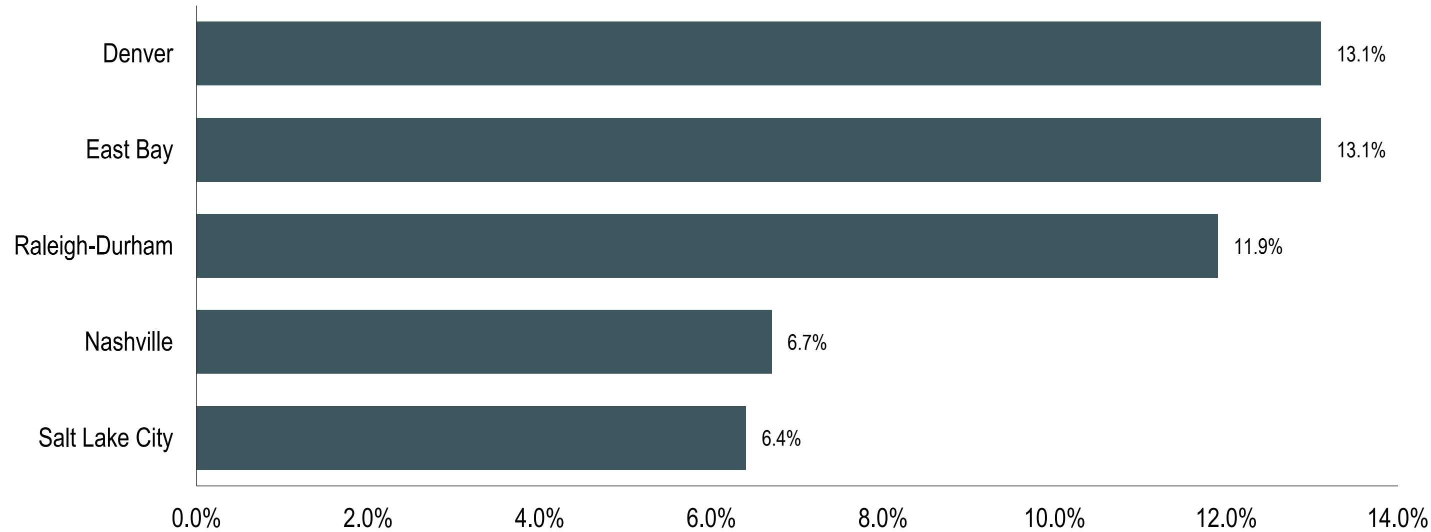
YTD net absorption (s.f.)



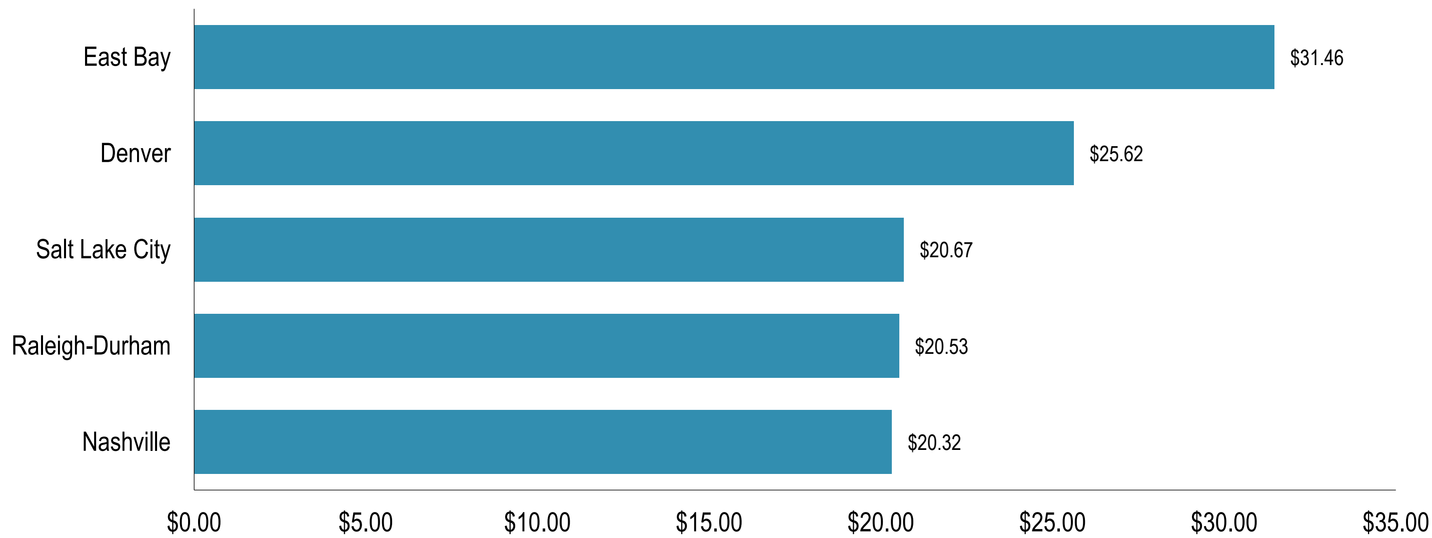
YTD net absorption (% of inventory)



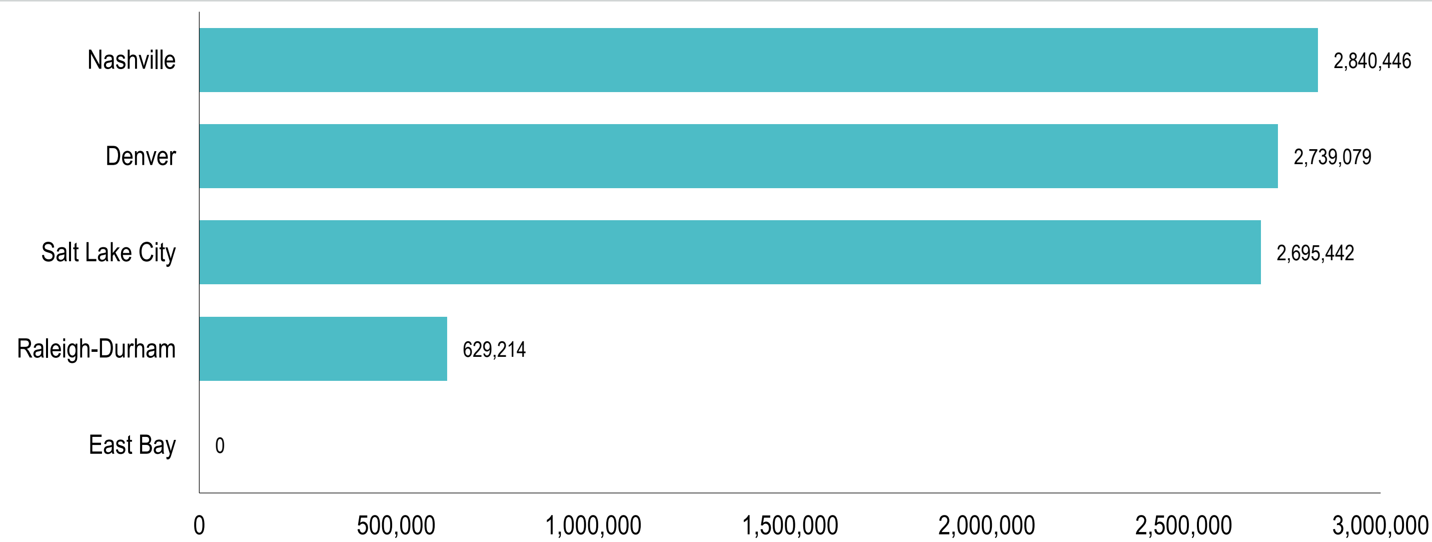
Total vacancy (%)



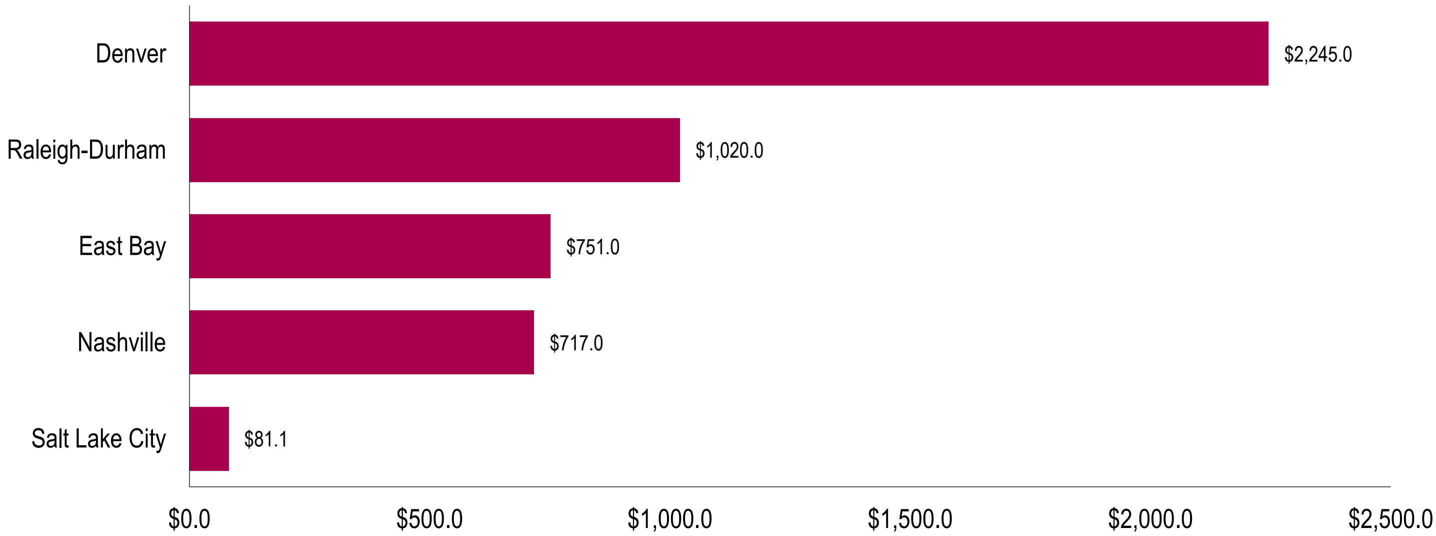
Average direct asking rent ($ p.s.f.)



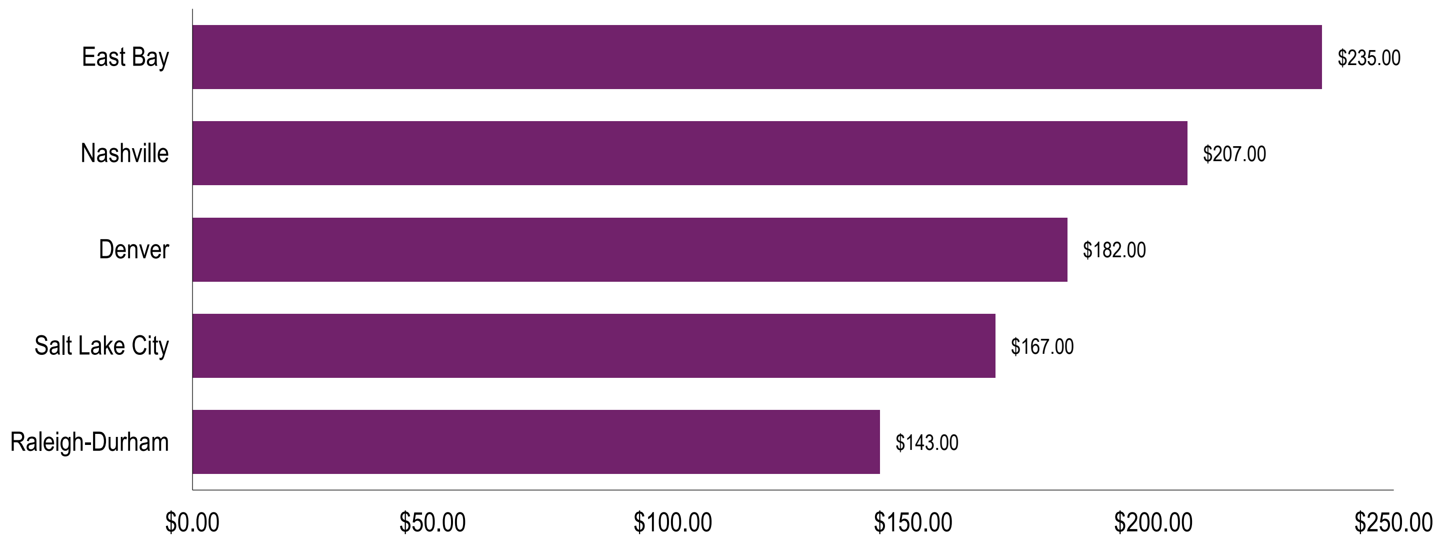
Under construction (s.f.)



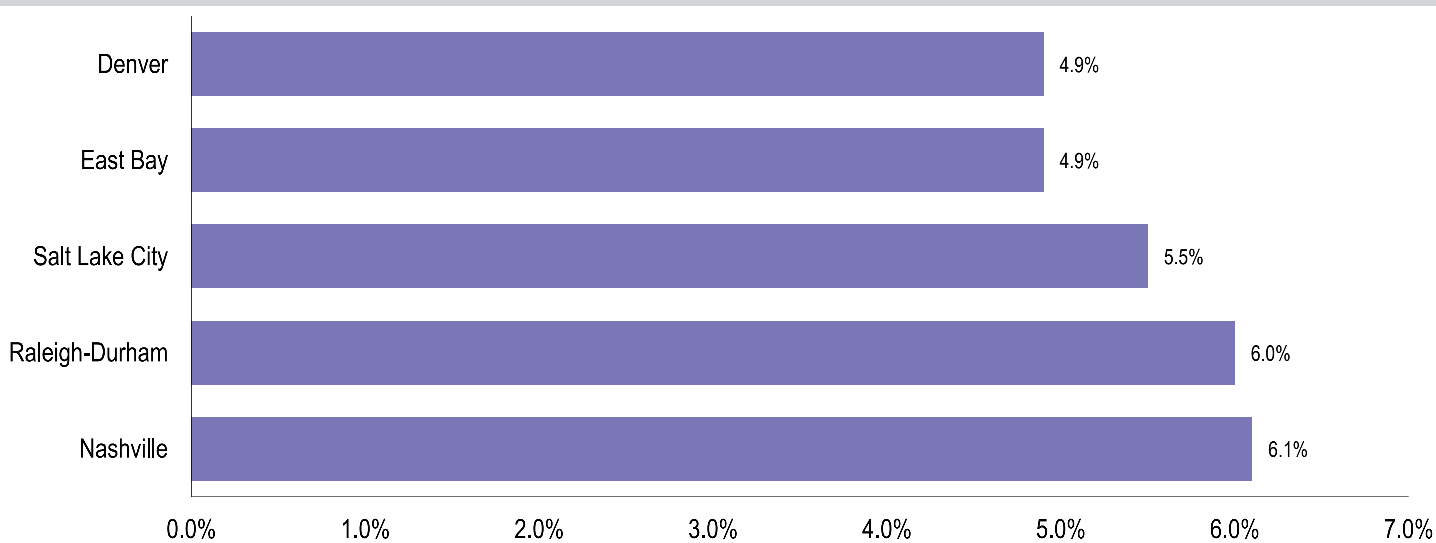
Total investment sales volume ($, millions)



Average price per square foot ($)



Average cap rate (%)



SELECT LARGE LEASES

> 30,000 SQUARE FEET

Sorted by lease size and completed during 2015

Market	Tenant	Address	Size (s.f.)	Lease type
Denver	Anadarko Petroleum	1099 18th Street	343,080	Renewal
Denver	Comcast	9401 E Panorama Circle	288,000	Expansion in market
Denver	URS	6200 S Quebec Street	282,800	Relocation within market
Denver	DaVita	16 Chestnut Place	265,322	Expansion in market
Raleigh-Durham	Allscripts	North Hills	250,000	Relocation within market
Raleigh-Durham	Duke University	2200 W Main Street	188,000	Expansion in building
Nashville	Dell	1 Dell Parkway	185,431	Relocation within market
Oakland-East Bay	SAP	2600 Camino Ramon	150,000	New to market
Nashville	HCA	1 Dell Parkway	120,000	Relocation within market
Raleigh-Durham	Fidelity	5411 Page Road	116,300	Expansion in market
Denver	Time Warner	12101 Airport Way	88,494	Renewal
Salt Lake City	HealthEquity	15 W Scenic Pointe Drive	81,326	Renewal
Salt Lake City	Jet.com	12884 S 200 E	75,000	Expansion in building
Denver	Prologis	1800 Wazee Street	72,398	Relocation within market
Denver	WeWork	1550 Wewatta Street	71,617	New to market
Raleigh-Durham	Genband	5927 S Miami Boulevard	71,253	Relocation within market
Denver	Allstate	10002 Park Meadows Drive	70,272	Relocation within market
Raleigh-Durham	Credit Suisse	Lenovo Building - Paramount Parkway	70,000	Expansion in market
Salt Lake City	Marriott Hotels	7200 S 700 W	66,000	Expansion in building
Oakland-East Bay	Brown & Toland	1221 Broadway	59,514	New to market
Oakland-East Bay	Aduro Biotech	740 Heinz Avenue	56,452	New to market
Raleigh-Durham	Kimley-Horn and Associates	One Bank of America Plaza	53,412	Relocation within market
Denver	Kaiser Foundation	2530 S Parker Road	53,379	Renewal
Oakland-East Bay	Matson Navigation Company	555 12th Street	50,898	Renewal
Denver	WeWork	2420 17th Street	50,801	Expansion in market
Oakland-East Bay	iParadigms (Turnitin)	2101 Webster Street	48,912	Expansion in market
Oakland-East Bay	Relay Health	2100 Powell Street	48,233	Relocation within market
Salt Lake City	MaritzCX	Hwy 92	48,000	New to market
Oakland-East Bay	Amethod Public Schools	1450 Marina Way S	46,688	Relocation within market
Oakland-East Bay	CGP Acquisition	1340 Treat Boulevard	42,195	Renewal
Raleigh-Durham	BioLab	701 W Main Street	42,000	New to market
Oakland-East Bay	Bank of the West	12677 Alcosta Boulevard	41,039	Expansion in building
Oakland-East Bay	CTDN	12667 Alcosta Boulevard	41,039	Relocation within market
Denver	Medtronic	867 Coal Creek Drive	40,511	Renewal
Oakland-East Bay	Roche Molecular Systems	4155 Hopyard Road	40,164	Renewal
Oakland-East Bay	MBH Architects	960 Atlantic Avenue	40,124	Relocation within market
Nashville	TriWest Healthcare	301 Plus Park Boulevard	40,000	Expansion in market
Nashville	Quorum	1573 Mallory Lane - Building A	39,333	Expansion in market
Nashville	CMA	35 Music Square East	38,529	Expansion in market
Nashville	Comdata	3325 Perimeter Hill Drive	38,320	Relocation within market
Raleigh-Durham	Social Scientific	1009 Slater Road	37,587	Extension (< 36-month term)
Oakland-East Bay	Union Bank	1221 Broadway	37,122	New to market
Nashville	Lyft	150 2nd Avenue	36,322	New to market
Oakland-East Bay	Sutter Health	2000 Powell Street	33,325	Expansion in building
Denver	Uber	400 Centennial Parkway	32,719	Expansion in market
Oakland-East Bay	Sunset Publishing	55 Harrison Street	32,195	New to market
Salt Lake City	Skullcandy	1441 W Ute Boulevard	31,981	Renewal
Oakland-East Bay	Ellie Mae	4420 Rosewood Drive	31,717	Expansion in building
Nashville	First Tennessee Bank	1573 Mallory Lane - Building A	31,000	Expansion in market
Denver	Ciber	6312 S Fiddlers Green Circle	30,723	Relocation within market

SELECT LARGE SALES

> 30,000 SQUARE FEET

Sorted by total sales price and completed in 2015

Market	Building	RBA (s.f.)	Sale price $	Price per square foot ($ p.s.f.)	Buyer	Seller
Raleigh-Durham	Duke portfolio	2,700,000	$500,000,000	$185	Trinity Capital JV Starwood Capital Group JV Vanderbilt Capital Advisors	Duke Realty
Oakland-East Bay	1221 City Center	521,177	$182,000,000	$349	UBS	Westcore Properties
Denver	1515 Wynkoop Street	306,791	$171,937,500	$560	Invesco	American Realty Advisors
Denver	Tierra Pearl	1,015,019	$155,926,796	$151	Unico Properties JV AEW Capital	WW Reynolds Companies
Raleigh-Durham	Lenovo Office Campus	485,000	$127,000,000	$262	Arzan Financial Group	
Denver	410 17th Street	434,740	$125,000,000	$288	Ivanhoe Cambridge	Beacon Capital Partners
Nashville	Lifeway Christian Resources	1,000,000	$125,000,000	$125	SW Value Partners	Thom Rainer
Oakland-East Bay	Uptown Station	381,622	$123,500,000	$324	Uber Technologies	Lane Partners
Denver	1550 Market Street	147,402	$90,000,000	$611		Integrated Properties
Denver	Village Center Station I	233,958	$76,700,000	$328	KBS Realty Advisors	Principal Real Estate Investors/Shea Properties
Denver	1401 17th Street	191,151	$75,200,000	$393	Zeller Realty Group	Lowe Enterprises Investors
Oakland-East Bay	1330 Broadway	328,427	$75,000,000	$228	TMG Partners	Zimmerman Investments
Denver	303 E 17th Street	295,282	$65,500,000	$222	Kennedy Wilson	Equity West Investment Partners/Broadreach Capital Partners
Oakland-East Bay	Lake Merritt Tower	204,000	$65,000,000	$319	California Nurses Association	Brandywine Realty Trust
Oakland-East Bay	505 14th Street	171,234	$59,500,000	$347	Rubicon Equities	Strada and Angelo Gordon
Raleigh-Durham	Erwin Square Plaza	238,792	$57,250,000	$240	Lionstone Investments	Federal Capital Partners
Nashville	Dell	340,000	$52,943,000	$155	LBA Realty	Dell Computers
Nashville	Palmer Plaza	243,056	$50,000,000	$205	Vanderbilt Capital Advisors JV Apollo	Palmer Plaza Partners II
Denver	18th Street Atrium	117,470	$44,000,000	$375	Stoltz Real Estate Partners	Toma West
Raleigh-Durham	Wells Fargo	450,393	$42,300,000	$94	Consolidated-Tomoka Land Company	Oak Capital Management & National Financial Realty
Denver	ParkRidge Four	192,359	$42,200,000	$219		
Oakland-East Bay	2001-2003 Diamond Boulevard	576,000	$42,000,000	$73	CenterCal Properties	Chevron Corp
Oakland-East Bay	Chevron	576,000	$40,000,000	$69	CenterCal Properties	Chevron Corp
Denver	Waterview 4	167,917	$39,000,000	$232	Select Income REIT	American Realty Capital
Oakland-East Bay	Stoneridge Tower	171,009	$36,000,000	$211	Embarcadero Capital Partners	Marquad Inc AKA Richard Martin Trust
Denver	Inverness Business Park	214,139	$35,975,000	$168	Cordia Capital Management	SteelWave
Denver	The Urology Center of Colorado	56,349	$35,150,000	$624	Olympus Ventures	Charter Realty Group
Oakland-East Bay	Britannia Business Center III	191,009	$35,100,000	$184	Ridge Capital Invesetors	CW Capital
Denver	DTC Crossroads	188,548	$35,000,000	$186	City Office REIT	LBA Realty
Oakland-East Bay	Orinda Theatre Square	90,537	$31,340,500	$346	Dunhill Partners	GLL Real Estate Partners
Denver	One Union Square	186,734	$30,868,000	$165	Granite Properties	Broadreach Capital Partners
Denver	475 17th Street	151,425	$30,000,000	$198	LIC Asset Management	Western Development Group
Denver	Market Works	120,369	$29,675,000	$247	City Street Investors JV Star Investments JV Urban Renaissance Group	Jonathan Rose Companies
Nashville	L&C Tower	274,226	$29,750,000	$108	CIM Group	Northeastern Security Development
Nashville	BNA Corporate Center	240,542	$28,990,000	$125	Continental Capital Partners	Lingerfelt Companies
Raleigh-Durham	Colonnade II	126,926	$27,450,000	$216	Real Estate Value Advisors	Cornerstone
Denver	Flatiron Park West	164,465	$26,700,000	$162	Unico Properties	W.W. Reynolds
Salt Lake City	175 S West Temple	150,461	$25,175,000	$167	Stoltz Real Estate Partners	Del Mar Partnership

SELECT DEVELOPMENTS UNDERWAY

> 30,000 SQUARE FEET

Sorted by square feet and underway as of Q4 2015

Market	Submarket	Building	Construction type	RBA s.f.	Preleased %	Expected delivery year
Denver	West CBD	1144 15th Street	Speculative	640,429	1.3%	2018
Nashville	Downtown	Bridgestone Americas HQ	BTS	514,000	100.0%	2017
Nashville	Downtown	Capitol View	BTS	500,000	100.0%	2017
Salt Lake City	CBD	111 S Main Street	Speculative	440,452	39.7%	2016
Salt Lake City	CBD	111 S Main Street	Speculative	440,452	39.7%	2016
Raleigh-Durham	Six Forks/Falls of Neuse	Midtown Plaza	Speculative	330,000	74.3%	2017
Denver	Southeast Suburban	One Belleview Station	Speculative	318,000	6.6%	2016
Denver	West CBD	1401 Lawrence Street	Speculative	311,015	27.9%	2016
Raleigh-Durham	Six Forks/Falls of Neuse	Bank of America Tower	Speculative	300,000	51.2%	2016
Nashville	Downtown	1201 Demonbreun Avenue	Speculative	285,000	60.0%	2016
Salt Lake City	Union Park District	Overstock.com HQ	BTS	252,000	100.0%	2016
Denver	LoDo	The Dairy Block	Speculative	235,002	43.2%	2017
Denver	LoDo	Z Block Lodo	Speculative	235,002	43.2%	2017
Denver	Southeast	Colorado Center (Tower 3)	Speculative	232,444	0.0%	2017
Denver	Southeast Suburban	INOVA Dry Creek	Speculative	211,879	2.5%	2016
Nashville	Brentwood	Seven Springs West	BTS	203,884	85.0%	2016
Salt Lake City	Central Valley	5300 S Green Street	BTS	200,000	100.0%	2016
Salt Lake City	Utah County	Traverse Mountain 1	BTS	200,000	75.0%	2016
Denver	Boulder	Pearl West	Speculative	175,755	81.4%	2016
Salt Lake City	Utah County	Thanksgiving Station (Building 1)	BTS	163,000	100.0%	2016
Salt Lake City	Utah County	4257 N Mayflower Avenue	BTS	160,000	100.0%	2016
Salt Lake City	Utah County	1200 S State Street	Speculative	150,000	0.0%	2016
Salt Lake City	Utah County	Thanksgiving Station (Building 4)	BTS	150,000	75.9%	2016
Salt Lake City	Draper	Vista Station (Building 4)	BTS	150,000	100.0%	2016
Denver	Midtown Suburbs	3825 Lafayette Street	Speculative	125,000	100.0%	2016
Salt Lake City	Sandy South Towne	Towne Ridge Center	Speculative	125,000	0.0%	2016
Salt Lake City	Draper	Vista Station (Building 7)	BTS	125,000	60.0%	2016
Salt Lake City	Utah County	Lehi Station	Speculative	122,390	0.0%	2016
Salt Lake City	Utah County	Traverse Mountain 2	Speculative	120,000	40.0%	2016
Nashville	Brentwood	Hill Center Brentwood (LBMC)	Speculative	114,000	82.0%	2016
Denver	LoDo	Union Tower West	Speculative	110,804	0.0%	2017
Salt Lake City	Utah County	4200 Chapel Ridge Road	Speculative	106,000	0.0%	2016
Salt Lake City	Lehi	Traverse Heights	Speculative	106,000	0.0%	2016
Denver	Northwest	8181 Arista Place	Speculative	105,288	6.3%	2016
Nashville	Midtown	35 Music Square E	Speculative	95,000	75.8%	2016
Nashville	Brentwood	Hill Center Brentwood (Building A)	Speculative	90,018	55.0%	2017
Nashville	Brentwood	Mallory Park (Phase 1)	Speculative	80,000	50.0%	2016
Salt Lake City	Utah County	UCCU Digital Tower	Speculative	70,000	10.0%	2016
Nashville	Green Hills/Music Row	4000 Hillsboro Pike	Speculative	68,544	7.6%	2017
Denver	Boulder	1301 Walnut Street	Speculative	63,000	5.8%	2016
Denver	Boulder	Parkway Center	Speculative	61,717	94.1%	2016
Salt Lake City	Utah County	The Summit	Speculative	60,000	0.0%	2016
Denver	North I-25	855 W 122nd Avenue	BTS	53,000	100.0%	2016
Denver	LoDo	A Block	Speculative	52,246	91.4%	2016
Salt Lake City	Draper	The Interchange @ South Valley (Building 3)	BTS	51,600	53.1%	2016
Salt Lake City	Draper	The Pointe	BTS	50,000	100.0%	2016
Denver	Midtown Suburbs	1855 29th Street	Speculative	43,500	0.0%	2016

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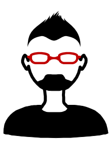

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