2015 - 2017

UNITED STATES OFFICE OVERVIEW & FORECAST

A Cushman & Wakefield Research Publication

CUSHMAN & WAKEFIELD®

CONTENTS

U.S. **OFFICE** OVERVIEW & FORECAST

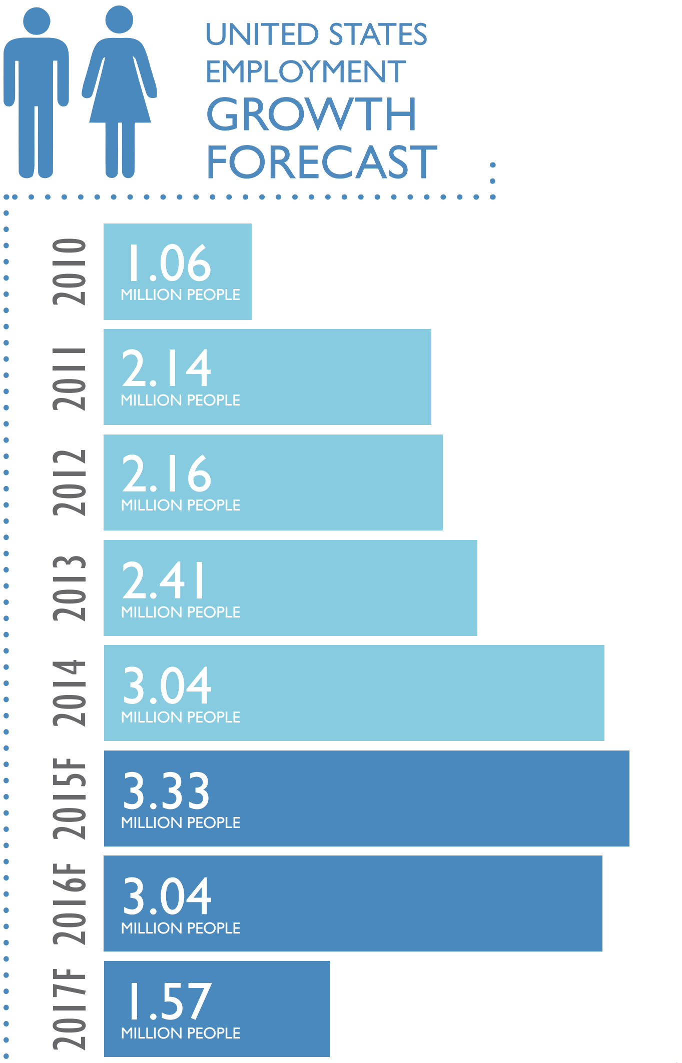
U.S. ECONOMIC OVERVIEW & FORECAST

Cushman & Wakefield expects the period from 2015 through 2017 to be the strongest three years of economic growth in the U.S. since 2004-2006. The key growth drivers will be high levels of business and consumer confidence leading to more hiring, and faster income and spending growth. Overall U.S. GDP growth is forecast to average 3.1% per year.

The U.S. economy entered 2015 with strong positive momentum. Businesses were more optimistic than they have been since 2007, anticipating strong sales growth. As their focus shifted from concerns about costs, to growing top line revenue, businesses began to hire more aggressively. The number of job openings in the economy jumped from 3.9 million in January 2014 to 5.1 million a year later, an increase of more than 28%. As businesses began to seek more workers, hiring increased. After adding 2.4 million jobs to payrolls in 2013, employment surged by more than 3.1 million jobs in 2014, the largest increase since 1999. And employment growth has remained strong in 2015. As of March payroll employment was up more than 3.1 million jobs from a year earlier. Over the next three years U.S. employment is forecast to increase by almost 8.0 million jobs.

With more individuals employed, aggregate income has increased rapidly. As of early 2015, inflation-adjusted income after taxes had increased 4.2% from the year-earlier level, the strongest non-tax impacted income growth since 2006. We expect income to continue rising at a healthy pace in 2015 and 2016 as more jobs are added and as tightening labor markets lead to faster growth in wages and salaries. Inflation-adjusted after tax income is forecast to increase 3.8% per year over the next 3 years. In addition, consumers are benefiting from the more than 50% decline in oil prices since mid-2014. In January 2015 consumer spending on energy, goods and services accounted for only 3.9% of after tax income, the lowest since 2002. Finally, household wealth is increasing. At the end of 2014 aggregate household net worth in the U.S. reached a record $82.9 trillion, up more than $4.0 trillion over 12 months.

Rising income, rising wealth and falling energy prices will all provide households with a greater ability to increase spending. We forecast consumer spending, adjusted for inflation to increase by approximately 3.8% per year for the next three years, the fastest three years of growth since 1999-2001. As spending increases strongly it will boost demand for goods and services throughout the economy, helping to sustain employment growth, and leading business to increase investment in equipment and technology. The result will be a period of sustained strong economic growth.



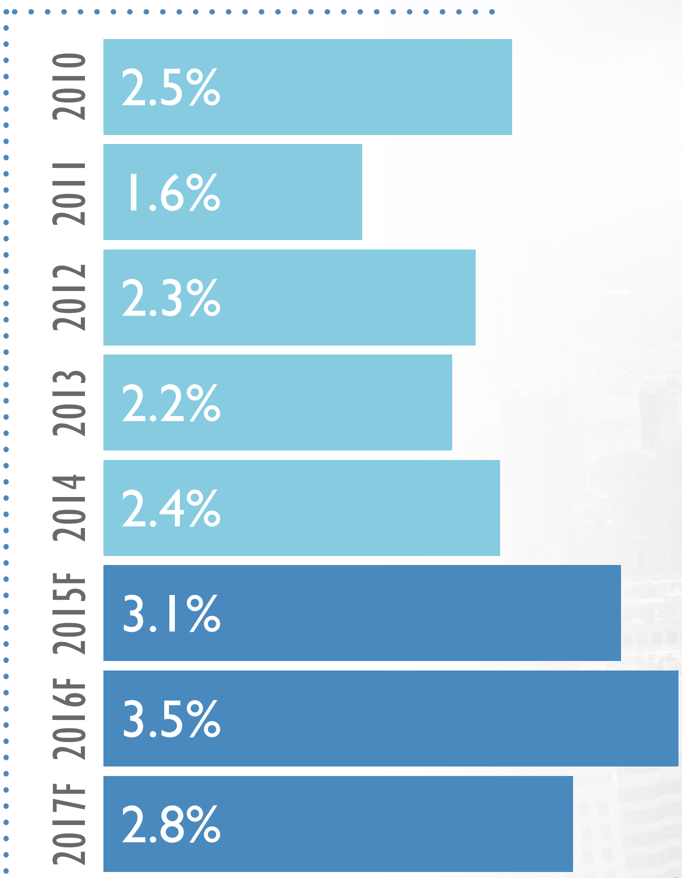
Source: U.S. Bureau of Labor Statistics, Moody's Analytics

The first quarter of 2015 may have been negatively impacted by severe winter weather, which likely held back consumer spending. However, as we saw in 2014, demand is likely to rebound with the arrival of spring. Overall the temporary interruption to growth caused by the weather will not have a lasting impact on the strength of the economy over the next three years.

Strong economic growth will lead to a shift in monetary policy at the Federal Reserve. After an unprecedented period of monetary ease, the Federal Reserve is poised to begin tightening policy in 2015. It is likely that by mid-2015 the Federal Open Market Committee (FOMC) will raise short term interest rates for the first time since June 2006. Anticipation of this policy shift has already caused the yield on the 10-year Treasury note to climb above 2.0%. Over the next three years the 10-year yield is expected to rise to about 4.5%.

The economic environment over the next three years will be the best for the commercial real estate sector in more than a decade. The combination of rising employment and incomes, strong consumer spending and business investment growth will likely lead to strong demand growth across all property types.

UNITED STATES GDP GROWTH



Source: U.S. Bureau of Labor Statistics, Moody's Analytics

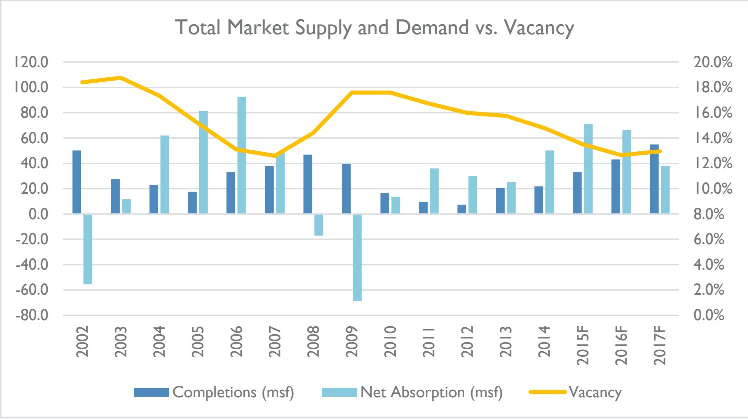
U.S. OFFICE MARKET OVERVIEW & FORECAST

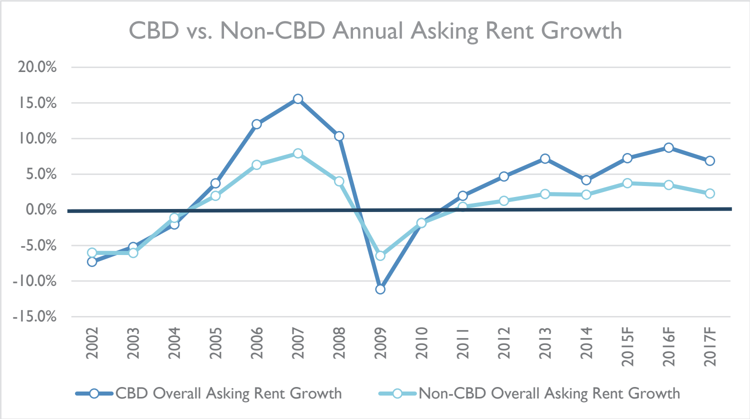
The U.S. office market ended 2014 on solid footing and is poised for even stronger growth through 2017. An improving economy led by healthy job growth prompted our nation's business leaders to start taking action on plans for growth – including hiring more workers and in some cases, upping their occupancy footprints. A relatively limited construction pipeline and tenant demand for modern space translated into a lack of quality space in several markets, tipping the scales back in favor of the landlord. New or rehabbed buildings are in a far better position to satisfy occupiers' demand for efficiencies and open-plan layouts than their older-generation counterparts. Some market indicators ended 2014 at levels not seen since before the recession.

Although we expect the occupier trend toward efficiency to continue, with fewer square feet allocated per employee, job growth will be strong enough to cause an 130-basis point (bp) decrease in the vacancy rate in 2015, followed by a further 80 bp drop in 2016, approaching its pre-recession levels. A stable vacancy rate is anticipated for 2017, as supply growth picks up to levels not seen since 2002 and employment growth moderates.

Absorption over the next 3 years is expected to total 175 million square feet (msf), which is more than the past 8 years combined. Growth in occupied space (which takes new supply into account) averaged 1.1% per year in the last decade, but is expected to average 2.5% over the next two years before returning to levels closer to the longer-term average in 2017.

Through 2017, new supply is expected to total 131 msf, hitting annual growth rates not seen since 2008. While older-generation office buildings sit empty in many markets across the country, occupiers' appetites for new or completely rehabbed properties show no signs of abating. Not only are occupiers seeking efficiencies that only new or renovated space can provide, but they are using this space as a tool to enhance their brands, and thus attract and retain a pool of young talent.





Average asking rent growth in the United States is expected to come in at just under 5.0% in 2015 and 2016, and 3.6% in 2017, well above the 10-year average of 2.8%. Markets expected to experience double-digit annual rent growth at least once over the forecast horizon include Boston, Seattle and Silicon Valley.

TENANT DEMAND FOCUSED ON THE CBD

Occupiers continued to flock to the urban cores across the U.S., with talent attraction and retention their top priorities. The millennial population, in particular, has demonstrated its preference for an urban environment in all facets of their lives. Working, living and playing have become a more seamless experience for this generation, which continues to enter, and will soon dominate, the labor market.

Unsurprisingly then, our nation's CBD markets performed better than their non-CBD counterparts by nearly every measure. The overall vacancy rate fell by 150 bp to 12.0% in 2014, occupied space increased by 2.3% and overall asking rents averaged growth of 4.2%.

A further 120-bp drop in the overall vacancy rate is forecast for 2015 and by 2016, it is expected to land in the single digits for the first time in a decade. Growth in occupied space, which averaged 0.9% over the past ten years, is projected to average 1.6% through 2017 with an additional 50 msf absorbed. Healthy rent growth is anticipated as the market tightens, averaging 7.6% compared to a 10-year average of 4.7%.

Boston ranks first for projected asking rent growth, averaging 10.1% per year from 2015-2017. The CBD tenant base in Boston has shifted dramatically recently, from financial and legal services tenants dominating the landscape to tech tenants – which were responsible for 28% of all new leases in the CBD in 2014. With strong pre-leasing in new construction by a variety of tenants, limited new spec construction, and continued growth in the tech sector, the limited supply of quality space will continue to push asking rents further north.

Seattle's downtown is expected to see the greatest percentage of its inventory absorbed through the forecast period – nearly 14%. In addition to Amazon, which remains in a growth spurt, a variety of companies in other industries are expected to contribute to the healthy demand as Seattle has some of the strongest employment growth numbers in the country. While a large number of new construction projects are in the pipeline, only 1.1 msf of speculative construction is currently under development.

Orange County and Miami top the CBD markets in terms of vacancy rate declines through 2017, with expected decreases of 530 bp and 510 bp, respectively. In downtown Miami, little new construction in the pipeline coupled with robust levels of demand from professional and business services firms, will lead to an increasingly tight market. Atlanta is becoming a classic example of movement into the urban core with projects such as the mixed-use Ponce City Market and Buckhead Atlanta attracting residents and businesses alike. Access to amenities and proximity to transit are important factors in the continued growth in these in-town areas. A diverse mix of tenants from traditional corporate users to tech-related tenants will continue to drive demand.

While Orange County is not a traditional "downtown" market, properties in its most centrally located area are also drawing a mix of tenants included healthcare and health-tech, start-ups and non-traditional office users such as video game developers. No new construction in the pipeline is also a major factor in the projected vacancy decline.

NON-CBD MARKETS REMAIN VIABLE CHOICES FOR OCCUPIERS

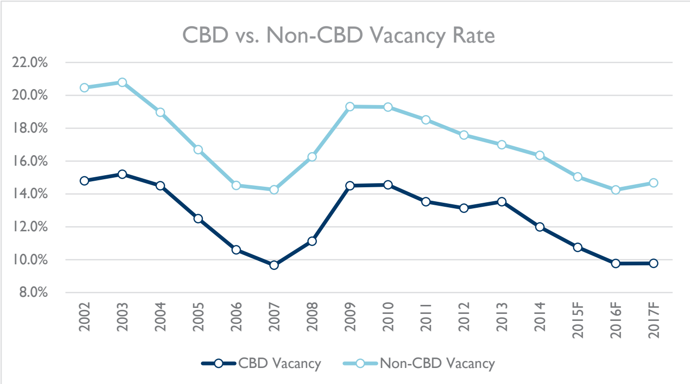
While the exodus of businesses and residents alike from the suburbs to the urban core has been well-documented, many non-CBD markets across the country are thriving and are expected to continue to do so over the next several years. It's true that the auto-centric suburban office park with few amenities has fallen out of favor with tenants, however properties outside of traditional downtown areas with an urban feel (a mix of office, retail, residential and recreational space) and with access to public transportation continue to attract occupiers.

The overall non-CBD vacancy rate fell by 70 bp to 16.3% in 2014 while absorption was approximately 26.5 msf. Occupied space growth in non-CBD markets has been averaging about 1.5% over the past 3 years as the market steadily recovered post-recession. In 2015, occupancy growth is expected to nearly double to 2.8%, a level not seen since 2006. With new supply coming on at more than double the rate of the CBDs and employment growth slowing somewhat, demand will struggle to keep up with supply in 2017, leading to a slight uptick in the vacancy rate. Rent growth, which was more moderate in 2014 at 2.1% in the non-core markets, is expected to average 3.2% per year through 2017.

Silicon Valley will continue to lead the charge, expected to absorb over 16% of its inventory by the end of 2017 as tech tenants keep expanding. With a dwindling supply of quality space, new construction is being absorbed upon completion. Pre-leasing activity in projects with a 2015 delivery date measures an astounding 92%. Some occupiers are choosing the build-to-suit route. Nearly 3.7 msf will deliver for just Google and Apple through 2016. Occupancy gains are expected to slow beyond the forecast period, leading to possible vacancy rate increases. Regardless, Silicon Valley is also expected to come out on top in terms of rent increases, averaging 10.6% growth annually through 2017. The non-core area of San Francisco, in addition to the San Francisco Peninsula, are also expected to experience strong rent growth, averaging 5.4% and 5.2% annually over the next 3 years, thanks to the burgeoning tech sector.

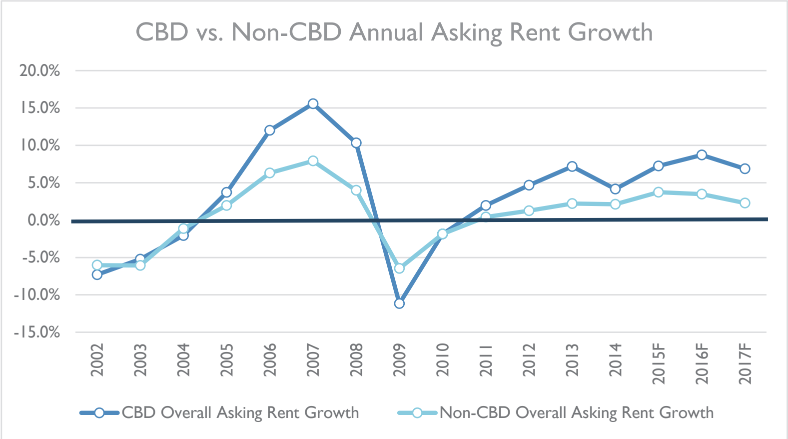
The Dallas suburbs rank second in absorption as the area continues to draw major corporate relocations and expansions. The most significant announcement in 2014 was from Toyota, which is moving its North American headquarters from Southern California to Plano to a 1.5-msf (and potentially larger) facility. And while it's a consolidation, State Farm upped the size of its new regional headquarters from 1.5 msf to 2.0 msf in the massive CityLine mixed-use development. More relocations are expected through the forecast period as Dallas continues to attract corporate occupiers due to its low cost of doing business, low taxes, easy access to skilled labor, and availability of multiple real estate options.

Suburban Orlando tops non-CBD markets in terms of declining vacancy rates, which are anticipated to fall by over 500 bp by the end of 2017. While the office market has been in slow recovery mode since 2011, new construction has been limited to owner-occupied build-to-suits even as the number of availabilities tightened, particularly for tenants needing larger blocks of space. The pace of economic expansion will pick up significantly in 2015 and 2016. In late 2014, the U.S. Census Bureau noted that Florida surpassed New York as the third most populous state in the country. Central Florida, and in particular, Orlando, has attracted a significant share of those new residents. One of the main reasons is that the region is anticipated to add jobs at a faster pace than most other Metro areas in the state, buoyed by jobs in the office-consuming professional and business services sector as well as those in tourism-related industries and ones tied to the growing housing market revival.

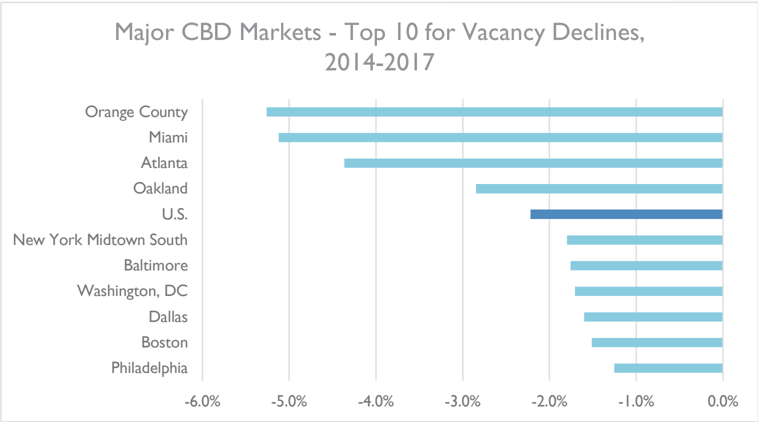


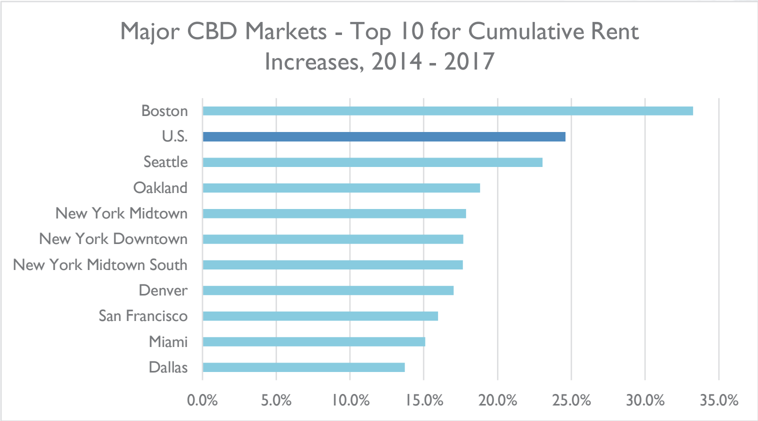
WILL THE CYCLE BE COMPLETED BY 2017?

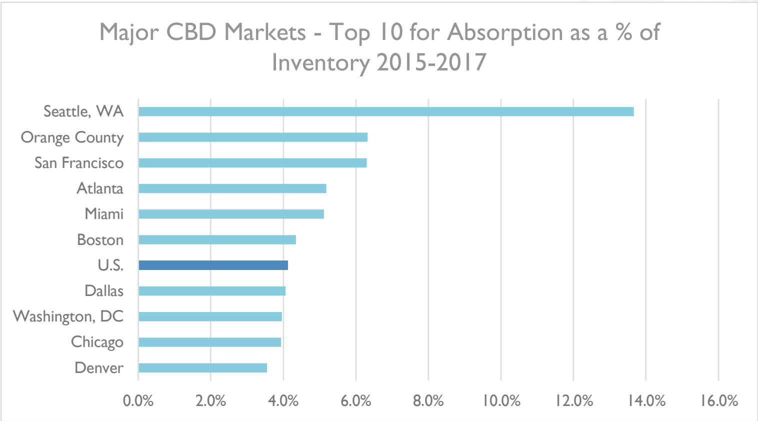
Yes, for the U.S. as a whole, most market indicators will be at or close to their pre-recession levels in the near-term. However, growth in occupied space will continue to be muted somewhat by the large-scale trend of tenants taking less space per employee. The anticipated removal of antiquated properties to other uses will keep vacancy rates in check even as more and more construction completes. As occupiers and investors adjust to this new "normal," we expect more markets to return to equilibrium, well ahead of the next cycle.



CBD RANKINGS

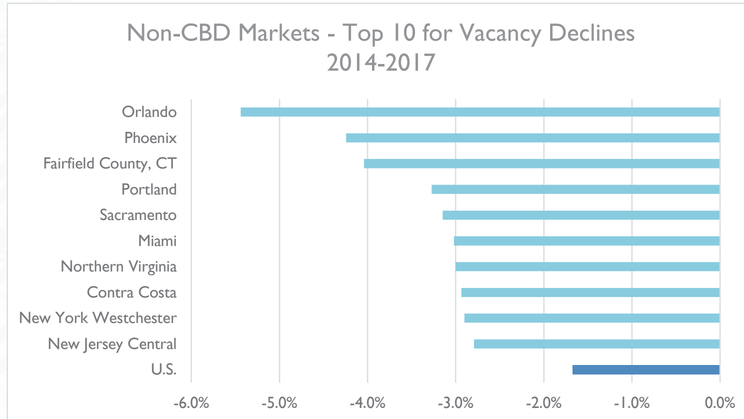


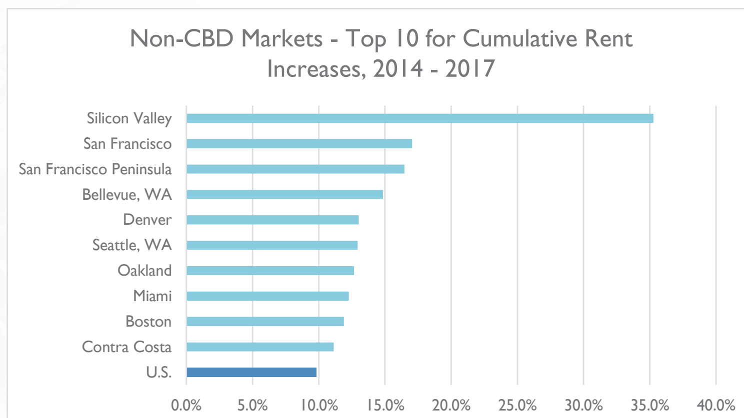


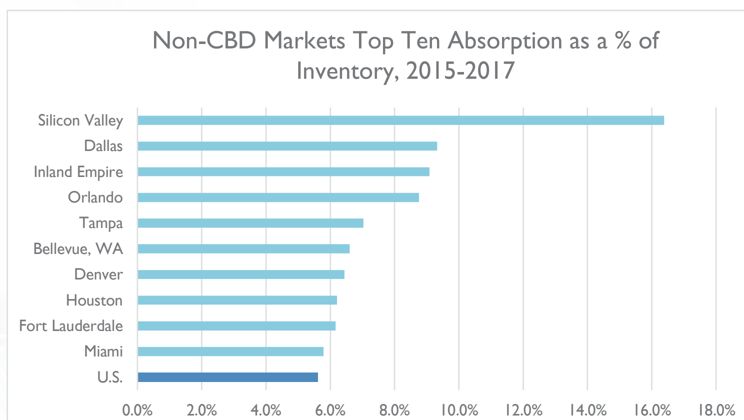


Note: Includes markets with inventory of 10 msf and greater.

NON - CBD RANKINGS







Note: Calculations for vacancy and rent are based on year-end 2014 figures.

U.S. OFFICE OVERVIEW & FORECAST

CBD FORECAST

OVERALL VACANCY RATE & OVERALL RENTAL RATE									
OFFICE	OVERALL VACANCY RATE				OVERALL RENTAL RATE				
CBD	2014	2015F	2016F	2017F	2014	2015F	2016F	2017F	AVERAGE ANNUAL RENT GROWTH (2015 - 2017)
Atlanta	18.2%	16.5%	15.5%	13.8%	$25.33	$26.51	$27.20	$27.81	3.2%
Baltimore	16.6%	15.6%	15.2%	14.8%	$20.53	$20.78	$21.03	$21.29	1.2%
Bellevue, WA	8.4%	11.5%	17.3%	12.8%	$37.54	$41.32	$44.58	$46.38	7.3%
Boston	9.4%	8.8%	8.2%	7.9%	$46.60	$52.83	$59.48	$62.09	10.1%
Chicago	13.2%	12.2%	13.3%	13.6%	$33.30	$34.34	$35.73	$36.48	3.1%
Dallas	22.4%	22.3%	21.8%	20.8%	$22.34	$23.42	$24.51	$25.40	4.4%
Denver	11.5%	11.0%	13.1%	13.0%	$31.28	$33.09	$35.25	$36.60	5.4%
Fairfield County, CT	23.3%	20.5%	18.4%	17.5%	$55.31	$59.19	$62.17	$63.69	4.8%
Fort Lauderdale	14.4%	14.4%	14.7%	14.1%	$31.86	$31.24	$31.72	$32.52	0.7%
Houston	9.7%	11.6%	12.5%	13.4%	$36.24	$35.70	$36.57	$37.29	1.0%
Los Angeles	20.8%	20.1%	21.2%	21.7%	$38.18	$39.13	$40.73	$42.46	3.6%
Miami	15.0%	15.0%	25.6%	21.9%	$38.39	$40.30	$42.32	$44.18	4.8%
New York Downtown	9.7%	8.4%	7.1%	9.4%	$51.09	$53.11	$55.20	$60.12	5.6%
New York Midtown	9.8%	9.8%	9.5%	10.3%	$75.14	$80.39	$86.94	$88.56	5.7%
New York Midtown South	7.1%	6.0%	5.5%	5.3%	$60.72	$65.80	$69.70	$71.44	5.6%
New York Westchester	22.3%	20.3%	18.6%	18.2%	$32.60	$33.17	$33.81	$34.21	1.6%
Oakland	12.6%	10.8%	9.7%	9.8%	$31.25	$32.43	$34.84	$37.13	5.9%
Orange County	12.7%	11.1%	9.0%	7.4%	$31.08	$33.17	$34.51	$35.66	4.7%
Orlando	13.9%	12.0%	11.6%	15.5%	$23.38	$24.13	$24.78	$25.21	2.5%
Philadelphia	11.0%	10.1%	10.3%	9.7%	$25.83	$26.06	$27.10	$27.84	2.5%
Phoenix	23.0%	22.4%	23.9%	23.7%	$21.30	$21.61	$22.00	$22.14	1.3%
Portland	9.7%	8.5%	10.0%	9.9%	$25.59	$26.88	$28.05	$28.53	3.7%
Sacramento, CA	10.3%	9.1%	9.9%	9.6%	$25.92	$26.81	$27.63	$27.82	2.4%
San Diego	16.0%	17.4%	16.9%	17.2%	$26.28	$27.00	$27.24	$27.12	1.1%
San Francisco	8.2%	7.8%	7.6%	8.1%	$63.05	$67.48	$71.41	$73.11	5.1%
Seattle, WA	10.4%	11.1%	14.6%	13.0%	$31.37	$34.45	$37.99	$38.60	7.2%
Silicon Valley	16.2%	14.4%	12.8%	12.0%	$31.13	$31.99	$33.03	$34.08	3.1%
Tampa	12.8%	11.2%	9.5%	13.8%	$22.52	$22.90	$23.68	$24.34	2.6%
Washington, DC	13.0%	12.7%	11.6%	11.3%	$51.13	$52.40	$54.14	$55.33	2.7%
U.S.	12.0%	10.8%	9.8%	9.8%	$43.48	$46.62	$50.69	$54.17	7.6%

Note: U.S. Forecast includes markets not listed in this chart

NON - CBD FORECAST

OVERALL VACANCY RATE & OVERALL RENTAL RATE									
	OVERALL VACANCY RATE				OVERALL RENTAL RATE				
CBD	2014	2015F	2016F	2017F	2014	2015F	2016F	2017F	AVERAGE ANNUAL RENT GROWTH (2015 - 2017)
Atlanta	17.6%	16.7%	16.1%	15.2%	$19.29	$19.91	$20.30	$20.65	2.3%
Baltimore	13.8%	13.7%	12.9%	11.5%	$23.72	$24.17	$24.63	$25.10	1.9%
Bellevue, WA	11.3%	9.9%	11.7%	9.4%	$27.69	$28.66	$30.45	$31.80	4.7%
Boston	17.2%	16.2%	15.7%	15.0%	$22.90	$24.25	$25.46	$25.63	3.8%
Chicago	18.6%	17.7%	17.0%	16.9%	$21.94	$22.27	$22.65	$22.92	1.5%
Contra Costa	14.9%	13.7%	12.4%	12.0%	$28.92	$30.83	$31.88	$32.14	3.6%
Dallas	16.7%	16.2%	17.3%	16.2%	$21.13	$21.69	$22.22	$22.69	2.4%
Denver	12.5%	12.7%	11.7%	11.0%	$20.01	$21.14	$22.04	$22.61	4.2%
Fairfield County, CT	20.7%	18.5%	16.9%	16.7%	$30.73	$30.48	$30.93	$31.48	0.8%
Fort Lauderdale	12.3%	11.6%	15.5%	14.6%	$25.16	$25.97	$26.90	$27.69	3.2%
Houston	12.5%	15.1%	14.8%	14.6%	$24.54	$24.31	$24.43	$24.58	0.1%
Inland Empire	17.0%	16.7%	16.8%	14.5%	$20.64	$21.20	$21.43	$21.47	1.3%
Los Angeles Metro	15.3%	15.5%	15.7%	15.3%	$24.68	$24.48	$24.25	$24.22	-0.6%
Miami	14.6%	13.4%	12.3%	11.2%	$29.24	$30.21	$31.54	$32.83	3.9%
New Jersey Central	18.1%	17.7%	16.7%	15.3%	$24.14	$24.69	$25.55	$26.14	2.7%
New Jersey North	21.5%	21.2%	20.5%	20.5%	$26.65	$27.09	$27.80	$28.40	2.1%
New York Long Island	16.6%	15.6%	15.8%	15.7%	$29.64	$30.16	$30.43	$30.75	1.2%
New York Westchester	19.2%	18.6%	17.1%	16.3%	$29.18	$29.82	$30.61	$31.27	2.3%
Northern Virginia	21.1%	20.7%	19.1%	18.1%	$33.22	$33.40	$34.31	$35.43	2.2%
Oakland	15.8%	15.0%	13.9%	13.4%	$27.69	$28.62	$29.92	$31.20	4.1%
Orange County	14.4%	14.0%	13.6%	12.8%	$21.72	$21.88	$22.34	$22.38	1.0%
Orlando	17.5%	15.0%	12.9%	12.1%	$19.90	$20.52	$21.02	$21.37	2.4%
Philadelphia	16.5%	15.8%	14.5%	14.9%	$23.14	$23.86	$24.79	$25.26	3.0%
Phoenix	21.6%	19.1%	18.0%	17.4%	$20.92	$20.61	$20.67	$20.68	-0.4%
Portland	12.6%	10.9%	9.7%	9.3%	$20.64	$20.82	$21.26	$21.67	1.6%
Sacramento	15.1%	13.2%	12.3%	11.9%	$19.32	$19.63	$20.02	$20.34	1.7%
San Diego	12.0%	10.7%	10.2%	13.4%	$27.96	$29.16	$29.88	$30.24	2.7%
San Francisco	7.7%	9.5%	10.7%	11.1%	$52.50	$55.90	$59.72	$61.45	5.4%
San Francisco Peninsula	9.8%	10.6%	9.9%	9.4%	$45.50	$48.09	$51.24	$52.99	5.2%
Seattle, WA	18.3%	17.5%	17.9%	16.5%	$23.26	$23.97	$25.13	$26.27	4.1%
Silicon Valley	9.1%	8.8%	10.1%	13.2%	$35.21	$39.40	$43.77	$47.63	10.6%
Suburban Maryland	21.0%	20.5%	19.5%	18.7%	$25.91	$26.56	$27.31	$27.94	2.5%
Tampa	16.5%	15.5%	16.1%	16.0%	$22.45	$23.02	$23.80	$24.46	2.9%
U.S.	16.3%	15.0%	14.2%	14.7%	$25.15	$26.09	$26.99	$27.61	3.2%

U.S. **OFFICE**
OVERVIEW &
FORECAST
2015-2017

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METHODOLOGY

Cushman & Wakefield's office and industrial market forecasts are derived utilizing least-squares regression analysis, isolating trends identified in historical occupancy and rental rate movements as they relate to other predictive factors, including employment growth, new construction and absorption tendencies. All of our forecasts are structured to achieve a 90% confidence level, with a margin of error of (+/–) 5.0%. This approach allows us to quantify benchmark associations in an impartial, scientific and statistically significant way to help ensure we provide our clients with the best information available and on which they can lean to support future real estate decisions.