There was little change in fourth quarter U.S. office market dynamics, either attributable to more stability or less uncertainty. With the election in the rearview mirror midway through the quarter, businesses had time to act before year-end, translating to a small surge in velocity.

The CBD showed a slight bounce-back, and the suburban market continued to improve modestly. Both segments recorded positive absorption alongside stable occupancy – CBD vacancy was flat; suburban vacancy was down slightly.

Payroll growth for the year lagged 2015, up 1.6% in the 12 months through fourth quarter, compared with 2% in 2015.

Office-using jobs grew 2.2% year-over-year, nearly level with the 12-month growth rate through third quarter, but still down from 2.5% growth last year.

High-tech sectors showed a greater retrenchment, adding 1.9% to the employment base, down from 2.9% growth in 2015.

Private office construction spending is now well above the 2008 peak, at $68 billion in dollar work value underway as of November. This level represents a 44% increase from year-end 2015.

*spending incl. renovation/improvement dollars on an annualized basis, not inflation-adjusted.

Sources: CBRE-EA, Moody’s Analytics, and Deutsche AM. As of December 2016.

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**U.S. Office Market Statistics**

<table>
<thead>
<tr>
<th></th>
<th>4Q2016</th>
<th>3Q2016</th>
<th>4Q2015</th>
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<tbody>
<tr>
<td><strong>Vacancy Rate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CBD</td>
<td>10.7%</td>
<td>10.7%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Suburban</td>
<td>14.1%</td>
<td>14.3%</td>
<td>14.7%</td>
</tr>
<tr>
<td><strong>Net Absorption (YTD)</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>CBD</td>
<td>3.9 MSF</td>
<td>0.4 MSF</td>
<td>17.3 MSF</td>
</tr>
<tr>
<td>Suburban</td>
<td>35.9 MSF</td>
<td>26.2 MSF</td>
<td>44.0 MSF</td>
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<tr>
<td><strong>Avg. Asking Rent</strong></td>
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<td></td>
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<tr>
<td>CBD</td>
<td>$46.44</td>
<td>$46.17</td>
<td>$44.02</td>
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<tr>
<td>Suburban</td>
<td>$24.87</td>
<td>$24.72</td>
<td>$23.87</td>
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<tr>
<td><strong>Avg. Asking Rent Growth (% chg y/y)</strong></td>
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<td></td>
<td></td>
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<tr>
<td>CBD</td>
<td>5.5%</td>
<td>6.3%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Suburban</td>
<td>3.8%</td>
<td>4.0%</td>
<td>3.5%</td>
</tr>
<tr>
<td><strong>Completions (YTD)</strong></td>
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<td></td>
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<tr>
<td>CBD</td>
<td>9.2 MSF</td>
<td>4.2 MSF</td>
<td>7.2 MSF</td>
</tr>
<tr>
<td>Suburban</td>
<td>27.6 MSF</td>
<td>12.4 MSF</td>
<td>30.2 MSF</td>
</tr>
</tbody>
</table>

Sources: CBRE-EA and Deutsche AM. As of December 2016.
Office Market Fundamentals

- Fourth quarter was a slightly positive pivot for CBD office market activity, following a pullback in third quarter: Net absorption re-entered positive territory at 3.9 MSF at year-end. While this is off substantially from 17.3 MSF absorbed during 2015, it was a strong recovery from the previous quarter.7

- In spite of the highest levels of completions since the recession at 36.8 MSF, vacancy in the CBD was flat quarter-to-quarter, and up 40 bps from 2015. Suburban vacancy closed the year down 60 bps in the same period.8

- Asking rents continue to rise in both CBDs and the Suburbs, in part buoyed by new construction. Yet, the growth rate is picking up in suburban markets and retracting in CBDs.9

- The AIA Commercial Billings index surged in December, likely in part a backlog from uncertainty earlier in the year, but could drive construction activity during the next year.10

Sources: CBRE-EA, Moody’s Analytics, and Deutsche AM. As of December 2016.

In Focus: Los Angeles Office Market

- Atlanta’s office market is in the midst of a transformation. While much of the metro remains heavily dependent on car-commuting, transit access is becoming a greater concern among office-users, in line with Gateway City trends, driving Midtown’s momentum.11

- Atlanta is competitively positioned against other East Coast metros with a favorable cost of living and doing business.11

- Historically known to attract headquarter locations, Atlanta’s urban nodes are now drawing tech companies to the area, with the development around Georgia Tech in Midtown.11

- Construction is restrained however, with Atlanta having been burned in the past by overzealous development. Construction underway currently totals approximately 5 MSF.12

- Industrial diversity here ranks high at 0.81 (1 being the most diverse). High-tech employment accounts for 6% of total employment compared with 4.8% for the U.S.13

Sources: Sources: CBRE, Moody’s Analytics. As of December 2016.

Sources: Sources: CBRE-EA and Deutsche AM. As of December 2016.

U.S. Office Market Indicators

U.S. Office Vacancy

Sources: CBRE-EA and Deutsche AM. As of December 2016.

U.S. Net Absorption

Sources: CBRE-EA and Deutsche AM. As of December 2016.

U.S. Average Asking Rents (Full Service Gross)

Sources: CBRE-EA and Deutsche AM. As of December 2016. Forecasts are based on assumptions, estimates opinions, and hypothetical models or analysis. Which may prove to be incorrect. Past performance is not indicative of future returns.

Top 10 Metros – 4Q2016 Ranking Tables

Sources: CBRE-EA and Deutsche AM. As of December 2016.

AIA Billings Index (Commercial)

Sources: Moody’s Analytics (American Institute of Architects) and Deutsche AM. As of December 2016.
## U.S. Office Market Snapshot

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