MARKETBEAT

UNITED STATES OFFICE REPORT

3Q09

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD®
Global Real Estate Solutions℠

ECONOMY

The U.S. economy continued to show more signs that the recession is drawing to a close. Consensus estimates show growth in real gross domestic product turning positive in the third quarter, benefiting from a pick-up in stimulus-driven private consumption, tax relief and inventory rebuilding. Job cuts in most industries remain elevated, although the pace of decline slowed during the third quarter. As a result, the unemployment rate in September inched up in 23 states and the District of Columbia , highlighting the fragility of the recovery. Job losses among office-using sectors totaled 209,000 during the third quarter, but that represent a stark improvement over the 628,000 and 491,000 jobs lost in the first and second quarters, respectively. There was good news in the financial sector. Several major financial institutions have repaid funds drawn from the Troubled Asset Relief Program (TARP). Certain sectors of the securitization market are also percolating, thanks to the government's Term Asset-Backed Securities Loan Facility (TALF) which was launched to jumpstart lending for consumers and businesses. However, credit markets are still far from fully healed; guidelines for encouraging lenders to rework troubled commercial real estate loans are underway.

OVERVIEW

Despite some encouraging news about the economy, the U.S. office market weakened further in the third quarter, although the downward momentum is abating. The overall vacancy rate climbed to a four-year high of 14.3% in Central Business Districts (CBDs) and 18.9% in suburban markets. Markets that had experienced a surge in new construction and those with a large financial sector presence reported the highest increases in availabilities: Manhattan, Seattle, and Washington, D.C. Even so, there were pockets of improvement. The rise in sublease availabilities continued to wane, following three consecutive quarters of sharp increases. Both CBDs and suburban markets added a combined total of 2.0 million square feet (msf) of sublease space in the third quarter compared with 6.0 to 7.0 msf that were put up for sublease in the three preceding quarters. Moreover, tenants are chipping away at large blocks of high-quality and attractively priced sublease alternatives; over 1.0 msf of subleases were inked during the quarter in high-end buildings, particularly in Manhattan. As a result, sublease vacancy as a percentage of total vacant space slipped from 16.8% at mid-year to 16.1% in the CBDs and was unchanged at 13.1% in suburban markets. Lastly, new construction is universally down across the nation, thus offering some semblance of a silver lining. Though completions remained elevated at 10.1 msf in the third quarter, over half had pre-lease commitments upon delivery.

Leasing, though spotty, has also improved. Tenants appeared more willing to sign leases as they take advantage of cost savings opportunities. As a result, leasing activity has picked up modestly this quarter in both CBDs and suburban markets, though year-to-date volume remains at an all-time low. Similarly, overall absorption declined at a slower rate, but is still the lowest on record having noticeably exceeded the declines of negative 20.0 to 30.0 msf posted by both CBDs and suburban markets in previous downturns. Nonetheless, some markets are getting a shot in the arm from the government sector. In the Chicago CBD, United's parent company UAL Corporation signed a lease for 450,000 square feet (sf) at the recently renamed Willis Tower, thanks to a $35-million tax-increment financing (TIF) subsidy from the City of Chicago. Likewise, the massive fiscal stimulus is helping leasing activity gain some traction in close-in markets in Northern Virginia. The General Services Administration signed nearly 700,000 sf of new leases during the quarter for the Department of Defense, the Department of Homeland Security, and the Department of Treasury.

Rents continued to drift lower against a backdrop of rising vacancies. Asking rents maintained their slow descent in most markets, but actual rents were down more steeply. Based on recent large transactions in major markets, effective rents (which account for concession packages) have dropped between 10.0% and 30.0% for top-grade space since the start of the year. In Manhattan, rents for class A space have even fallen 40.0% to 50.0% from their peak rates. Only rents for trophy spaces in Washington, D.C. and the Philadelphia CBD have held up throughout this downturn.

In another positive sign, investment activity picked up after consistently declining since the financial crisis began in the first quarter of 2008. Office acquisitions rose to $3.1 billon in the third quarter in both CBDs and suburban markets, bringing year-to-date volume to $9.1 billion. The greatest concentration of transactions occurred in New York, Los Angeles and Washington, D.C. metropolitan areas. Though 2009 is still on track to be the slowest year on record for investment sales when measured in dollar value, the sales uptick is a sign of improving investor sentiment. However, the credit market will have to be fully functional to sustain a meaningful increase in investment activity.

FORECAST

The outlook has improved for the U.S. economy since the start of the year, but Cushman & Wakefield expects the pace of recovery to be gradual and uneven. There will be no quick return to prior strong economic growth rates and improvement in the job market will be slow. Consequently, office market conditions will remain difficult through next year. Relatively weak labor market conditions, tight credit, and rising availabilities will continue to exert downside pressures on rents and property values in both CBDs and suburban markets.

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.6%	1.8%
CPI Growth	3.8%	-0.5%	1.7%
Unemployment	5.8%	9.2%	10.2%
Employment Growth	-0.4%	-3.8%	-1.1%

Source: Moodys|Economy.com

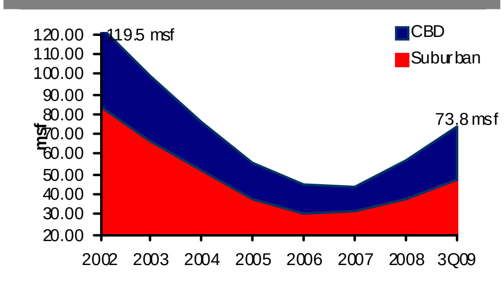
MARKET FORECAST

LEASING ACTIVITY will continue to reflect soft economic conditions for the rest of 2009. The expected gains in GDP will have to be consistently robust to halt the ongoing erosion in the labor market and thus, fuel a sustainable turnaround in leasing.

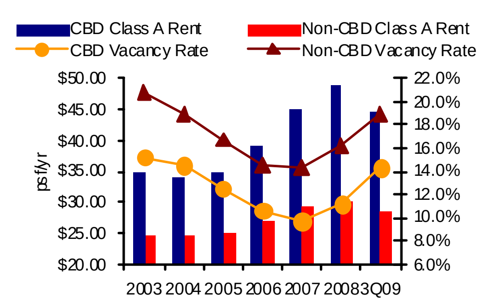
CONSTRUCTION completions are set for a sharp decline. With 11.3 msf slated to deliver in the fourth quarter, the full-year level will total 44.1 msf in 2009 but subsequently drop to 21.4 msf in 2010 and 3.0 msf in 2011. Unless demand picks back up more quickly than expected, any recovery in development activity will be muted for an extended period.

RENTAL RATES, on an effective basis, will remain vulnerable to a further correction as incentive packages remain a key driver in the leasing process. For tenants, falling rents represent opportunities to save and in some cases may make relocation a more economically attractive alternative than a renewal scenario.

SUBLEASE AVAILABILITY



RENTAL VS. VACANCY RATES



MARKETBEAT

UNITED STATES OFFICE REPORT 3Q09

Market	Inventory CBD	Inventory Non-CBD	Overall Vacancy Rate CBD	Overall Vacancy Rate Non-CBD	Sublease Vacant Space CBD	Sublease Vacant Space Non-CBD	Class A Direct Rental Rate* CBD	Class A Direct Rental Rate* Non-CBD	YTD Leasing Activity CBD	YTD Leasing Activity Non-CBD	YTD Const. Completions CBD	YTD Const. Completions Non-CBD
Atlanta, GA	15,567,139	125,009,969	21.7%	19.3%	432,526	2,721,623	$20.95	$25.34	693,988	4,468,038	0	1,987,948
Austin, TX**	8,734,763	34,392,154	16.0%	23.5%	240,530	939,278	$36.35	$26.60	****	****	0	719,941
Baltimore, MD	14,546,107	52,870,412	15.9%	14.3%	443,701	424,848	$25.20	$24.53	247,111	1,517,005	0	1,225,391
Bellevue, WA	8,161,324	22,893,292	14.8%	16.7%	221,941	619,939	$35.25	$30.58	353,986	890,066	748,000	117,277
Binghamton, NY**	2,221,967	2,544,239	18.3%	7.4%	0	19,500	$11.57	$15.48	33,008	19,915	****	****
Birmingham, AL**	5,165,764	12,134,643	9.8%	14.2%	29,596	624,643	$21.07	$21.26	****	****	0	0
Boston, MA	58,971,134	120,076,527	11.9%	20.3%	1,579,086	4,325,073	$47.15	$26.13	1,472,403	5,216,249	207,129	891,726
Buffalo, NY**	10,379,834	9,907,738	14.2%	8.3%	29,510	188,387	$21.09	$22.15	172,624	146,467	0	0
Central NJ	****	74,100,535	****	20.7%	****	1,933,191	****	$24.77	****	1,694,502	****	417,100
Charlotte, NC**	14,556,021	30,155,331	6.4%	19.1%	****	****	****	****	****	****	476,999	635,000
Chicago, IL	119,744,714	94,519,043	15.5%	23.8%	2,901,519	2,829,656	$38.41	$25.52	4,610,051	2,911,001	2,286,191	66,392
Columbus, OH**	9,965,302	22,416,262	15.8%	15.4%	227,206	304,105	$19.77	$14.62	215,114	704,708	****	****
Contra Costa, CA	****	31,860,079	****	20.3%	****	2,070,370	****	$25.32	****	1,615,634	****	0
Dallas, TX	28,997,589	149,164,190	29.1%	22.4%	228,679	2,080,666	$24.88	$26.49	618,352	6,095,660	0	2,412,360
Denver, CO	25,789,200	72,586,084	16.1%	18.4%	641,549	848,662	$30.48	$22.21	946,609	3,469,223	474,884	381,109
Detroit, MI**	24,802,410	68,218,261	17.8%	25.5%	65,629	1,606,316	$22.68	$20.36	227,388	1,722,988	55,966	20,872
Downtown NY	87,656,973	****	9.9%	****	2,339,539	****	$49.53	****	2,428,483	****	0	****
Fairfield County, CT	6,832,948	33,579,923	24.1%	17.9%	214,823	1,395,472	$46.39	$33.53	515,041	910,276	0	158,285
Fredericksburg, VA**	****	7,052,702	****	13.5%	****	125,887	****	$23.45	****	337,422	****	169,000
Ft. Lauderdale, FL	5,078,565	25,292,703	16.2%	18.0%	52,912	424,344	$33.35	$30.72	237,372	1,339,949	0	121,200
Hampton Roads, VA**	5,002,248	39,185,937	10.4%	10.3%	8,867	126,128	$21.62	$21.85	134,525	1,083,594	81,932	727,032
Hartford, CT	7,976,110	17,660,145	22.3%	16.2%	45,066	182,742	$23.54	$20.83	489,591	702,643	0	0
Houston, TX	35,912,553	128,917,938	11.4%	16.8%	493,962	1,727,337	$40.03	$30.44	1,008,410	5,804,007	0	3,948,887
Indianapolis, IN**	10,595,062	24,458,050	20.0%	23.0%	86,453	386,811	$19.64	$19.42	129,621	803,582	0	0
Inland Empire CA	****	16,847,426	****	25.9%	****	165,019	****	$27.52	****	645,010	****	474,860
Jacksonville, FL	7,477,290	17,350,266	22.4%	23.5%	68,277	249,264	$21.52	$20.52	104,312	902,665	0	18,000
Kansas City, MO**	12,682,876	33,203,343	19.5%	18.1%	125,374	139,949	$18.57	$22.03	195,268	852,364	0	497,717
Long Island, NY	****	31,908,000	****	14.5%	****	1,053,984	****	$32.46	****	991,828	****	260,000
Los Angeles-Central, CA	28,480,147	19,137,473	16.0%	11.6%	680,329	204,927	$36.75	$29.90	734,140	122,756	0	0
Los Angeles-North, CA	****	30,509,441	****	17.8%	****	867,269	****	$31.65	****	1,176,141	****	0
Los Angeles-South, CA	****	30,669,349	****	18.5%	****	416,042	****	$27.21	****	1,348,566	****	168,052
Los Angeles-Tri-Cities, CA	****	22,913,708	****	16.9%	****	259,937	****	$35.44	****	479,488	****	1,184,939
Los Angeles-West, CA	****	49,362,722	****	14.6%	****	1,609,060	****	$47.98	****	1,721,158	****	466,368
Louisville, KY**	9,120,223	10,660,264	12.4%	18.9%	80,002	22,000	$20.60	$18.76	139,981	337,104	77,200	0
Memphis, TN**	5,313,164	21,053,162	16.6%	15.2%	45,314	212,676	$16.61	$21.95	33,154	467,661	0	0
Miami, FL	12,387,465	35,697,798	15.5%	18.5%	254,603	471,333	$47.90	$34.66	375,504	1,114,373	0	1,170,146
Midtown South NY	64,797,069	****	9.4%	****	1,242,915	****	$51.11	****	1,185,318	****	0	****
Midtown NY	240,470,154	****	12.0%	****	7,524,577	****	$72.03	****	7,734,813	****	350,000	****
Milwaukee, WI**	13,501,586	24,041,650	17.3%	16.4%	0	0	$16.41	$14.64	279,480	613,994	27,897	254,315
Minneapolis, MN	35,175,136	43,721,547	18.9%	18.8%	342,600	1,020,994	$27.98	$27.70	****	****	0	817,200
Nashville, TN**	11,424,749	47,530,910	14.1%	9.8%	376,246	466,680	$20.87	$22.37	169,503	1,211,545	75,000	372,865
New Haven, CT	2,867,835	7,247,993	11.1%	14.4%	6,700	40,087	$30.24	$23.80	35,552	156,309	0	0
Northern NJ	****	106,349,956	****	17.3%	****	3,279,110	****	$29.22	****	2,996,683	****	363,688
Northern VA	****	128,687,080	****	14.8%	****	2,616,518	****	$34.14	****	5,286,978	****	992,091
Oakland, CA	13,019,442	13,850,401	16.0%	17.1%	139,728	117,772	$29.92	$28.91	421,154	589,608	110,000	28,000
Orange County, CA	35,658,451	45,087,119	21.6%	17.1%	831,505	676,720	$30.74	$27.99	1,849,020	2,386,274	0	0
Orlando, FL	7,390,208	30,145,072	19.3%	19.7%	205,524	738,009	$26.80	$23.22	266,381	1,404,445	0	268,274
Palm Beach, FL	3,048,926	22,771,526	19.6%	26.1%	65,330	391,575	$43.01	$33.07	97,720	966,138	0	168,800
Philadelphia, PA	42,111,555	87,283,965	11.9%	17.6%	584,919	1,737,790	$27.37	$26.35	389,782	1,745,779	0	301,679
Phoenix, AZ	15,577,941	58,391,518	18.2%	27.4%	194,867	1,382,299	$27.78	$26.73	297,985	2,379,622	0	1,045,739
Pittsburgh, PA**	28,238,603	61,474,155	13.1%	11.5%	232,256	372,052	$22.50	$21.11	576,284	1,970,131	0	1,032,496
Portland, OR	20,407,653	21,223,929	11.7%	19.9%	315,277	604,000	$25.79	$24.04	421,431	751,780	151,000	247,752
Raleigh/Durham, NC**	5,560,306	34,534,393	****	****	****	****	$22.64	$21.12	****	****	0	422,248
Richmond, VA**	11,022,122	44,786,523	16.2%	12.5%	297,061	360,695	$22.75	$19.28	227,743	878,957	0	134,940
Roanoke, VA**	3,450,463	5,540,985	9.6%	11.5%	0	3,975	$19.61	$17.60	18,681	53,443	0	0
Rochester, NY**	6,234,178	7,049,449	19.9%	11.5%	****	****	$21.00	$19.25	****	****	****	****
Salt Lake City, UT**	6,682,590	23,952,685	15.7%	16.8%	188,680	294,303	$26.30	$23.32	88,866	1,103,361	0	311,390
San Antonio, TX**	5,350,820	21,126,437	25.8%	19.7%	353,676	310,307	$21.05	$24.49	156,228	703,648	52,372	807,132
San Diego, CA	10,960,738	60,814,716	14.4%	17.5%	30,548	822,524	$31.56	$33.72	512,197	2,755,934	0	1,168,033
San Francisco Peninsula, CA	****	34,636,142	****	16.9%	****	1,372,776	****	$34.18	****	1,556,499	****	122,256
San Francisco, CA	48,039,287	24,567,376	13.5%	19.0%	1,434,276	714,410	$38.57	$31.57	1,772,754	389,214	0	0
San Gabriel Valley CA	****	11,381,062	****	17.8%	****	337,568	****	$28.92	****	349,041	****	0
San Juan, PR**	6,006,667	9,774,348	11.4%	15.5%	****	****	$20.62	$18.35	****	****	****	****
Seattle, WA	39,042,979	8,739,850	18.5%	20.0%	916,506	113,544	$31.90	$22.40	1,409,048	312,594	1,060,230	0
Silicon Valley, CA	6,491,711	36,742,143	21.8%	23.4%	47,283	1,263,288	$40.43	$34.83	289,196	1,621,550	300,000	1,245,540
Southern NH	****	12,312,954	****	20.1%	****	408,828	****	$17.25	****	323,847	****	0
St. Louis, MO**	12,987,327	36,606,378	26.0%	13.0%	125,385	422,812	$19.97	$23.57	250,870	1,441,469	0	309,624
St. Petersburg/Clearwater, FL	****	13,049,057	****	23.9%	****	137,384	****	$22.12	****	513,457	****	0
Suburban MD	****	56,489,307	****	17.4%	****	1,475,216	****	$31.43	****	1,647,455	****	950,725
Syracuse, NY**	6,911,398	10,135,359	26.0%	16.3%	116,164	107,918	$16.58	$17.83	100,322	67,172	61,935	0
Tampa, FL	6,370,574	25,051,931	20.0%	19.1%	66,970	454,259	$23.68	$25.70	151,982	1,264,039	0	317,611
Tucson, AZ**	3,620,621	17,673,015	7.7%	11.7%	16,352	110,668	$23.25	$23.99	27,697	450,282	66,000	175,164
Washington, D.C.	99,955,657	****	12.8%	****	1,815,663	****	$58.94	****	2,810,378	****	3,569,407	****
Westchester County, NY	6,239,527	22,132,760	21.2%	16.1%	382,110	454,460	$32.35	$31.15	98,716	525,759	0	0
TOTAL – ALL MARKETS	1,400,735,165	2,733,212,800	14.5%	18.0%	29,390,111	54,184,979	$41.21	$26.66	37,755,137	90,029,050	10,231,143	30,097,164
TOTAL – C&W MARKETS	1,161,204,101	2,073,604,427	14.3%	18.9%	26,745,810	47,039,889	$44.58	$28.39	34,578,780	75,059,243	9,256,841	23,507,428

*Full-service rental rates (psf/yr) **Alliance Market

CUSHMAN & WAKEFIELD®

For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge

Cushman & Wakefield, Inc.
51 West 52nd Street, New York, NY 10019
(212) 841-7500