

## **Current Issue Highlights First Quarter 2009**

### **NATIONAL HIGHLIGHTS**

Many investors are struggling with how to preserve value and maintain ownership in the wake of restricted debt options, declining tenant demand, and rising overall cap rates.

The worst is not behind the industry.

Some property owners are sacrificing economic occupancy as the need to lower rental rates and increase concessions reduces revenue streams.

The current downturn could present some great buying opportunities.

### **OVERALL CAP RATE (OAR) ANALYSIS**

Most markets reported a quarterly increase in their average OAR.

One of the largest quarterly shifts was posted for the national apartment market.

Most participants expect overall cap rates to increase over the next six months.

### **VALUATION ISSUES**

Over the past year, the average replacement reserve increased in most markets.

About 85.0% of our participants indicate that concessions are common in the office sector.

Initial-year market rent change rate assumptions have sharply decreased in many individual office markets.

### **TECHNOLOGY NEWS AND TRENDS**

Cloud computing provides IT directors with a new tool for managing their departments with fewer resources.

Cloud computing eliminates the need for companies to acquire and maintain hardware.

### **ECONOMIC NEWS**

The health of New York's local economy may not be as dependent on financial employment as it once was.

A rise in NYC's vacant office space will have less of an impact on its retail or lodging sectors.

## **REAL ESTATE VALUE CYCLES**

National cycles for the same property type differ across individual markets.

The majority of office and retail stock will be in recession in 2009.

Many large multifamily markets like San Diego, Dallas, and Orlando are expected to be in the recovery phase of the value cycle at year-end 2009.

## **SENIOR HOUSING INDUSTRY - NEW ADDITION**

Senior housing has been directly hurt by the U.S. economic recession.

The economy's negative impact on this niche sector varies based on property type and classification.

Occupancy is dropping in the "want" property classes, but has been less impacted in the "need" classes.

## **RETAIL: THE 100-MILLION-SQUARE-FOOT HANGOVER - SPECIAL REPORT**

Successive waves of development have caused supply of new retail space to greatly outpace population growth.

Many retail property owners are discovering that much of their retail space is now obsolete.

The fundamentals of the retail sector are unraveling.

A retail recovery will not begin in earnest before early 2010.

## **NATIONAL REGIONAL MALL**

Sale transactions have come to a near standstill.

A tenants' market is emerging throughout the retail sector.

## **NATIONAL STRIP SHOPPING CENTER MARKET**

Investment interest remains strong for well-located, grocery-anchored strip shopping centers.

The number of distressed assets up for sale is expected to rise.

## **NATIONAL CBD OFFICE MARKET**

The leasing pool is nearly frozen.

Many owners are focusing on asset management rather than acquisitions.

#### **NATIONAL SUBURBAN OFFICE MARKET**

Fundamentals will remain under pressure as demand weakens and more companies are forced to return space to the market.

Sublease space has become a significant problem in many suburbs.

#### **ATLANTA OFFICE MARKET**

Some tenants are focusing on cost-cutting measures in order to sustain operations.

The lack of liquidity continues to smother nearly all office building sales.

#### **BOSTON OFFICE MARKET**

Investors are bracing for higher vacancy rates and lower property values.

In the CBD, space options are a bit less abundant for prospective tenants.

#### **CHARLOTTE OFFICE MARKET**

Upcoming additions to supply will further stress fundamentals.

Free rent and excessive TI allowances are representative of rental concessions currently being offered.

#### **CHICAGO OFFICE MARKET**

Pessimism is widespread among investors.

Some investors are looking to acquire assets from distressed sellers.

#### **DALLAS OFFICE MARKET**

The investment market continued its downward spiral that began at the end of 2007.

The near-term threats to this office market resulted in a large jump in its average overall cap rate.

#### **DENVER OFFICE MARKET**

Local job cuts at national firms have stalled tenant demand.

Investors are not anticipating an increase in sale transactions until liquidity returns to the capital markets.

#### **HOUSTON OFFICE MARKET**

Many investors believe this market remains better positioned than most metro areas to withstand the current economic crisis.

Uncertainty surrounds the upcoming performance of this market due to ample new construction and likely sluggish demand.

#### **LOS ANGELES OFFICE MARKET**

Buyers and sellers are at odds over pricing and deals are few and far between.

Many investors have grown much more pessimistic about their ability to aggressively grow market rent.

#### **MANHATTAN OFFICE MARKET**

Despite numerous leasing options for tenants, leasing activity in 2008 was the lowest level recorded since 2001.

Many investors are reducing their expectations for future rent growth.

#### **NORTHERN VIRGINIA OFFICE MARKET**

Tenant demand is very weak outside the Beltway.

Oversupply issues are of particular concern to areas within Fairfax and Loudoun Counties.

#### **PACIFIC NORTHWEST OFFICE MARKET**

There is fear among landlords that its vacancy rate may shoot up to an extremely high rate.

As vacancy has trended upward in this market, overall cap rates have followed.

#### **PHILADELPHIA OFFICE MARKET**

A lack of major speculative office building construction may enhance this market's fundamentals.

Few investment sales continue to occur.

#### **PHOENIX OFFICE MARKET**

A severe imbalance between supply and demand resulted in negative absorption in 2008.

As supply outpaces demand and the local economy struggles, fundamentals will remain weak.

#### **SAN DIEGO OFFICE MARKET**

The local economy is facing a severe contraction.

A lack of recent sales data makes it difficult to determine the

value of office assets.

#### **SAN FRANCISCO OFFICE MARKET**

Tenants are transferring more space back into the market.

Many landlords are recognizing the slowdown in tenant demand by lowering their expectation for near-term market rent growth.

#### **SOUTHEAST FLORIDA OFFICE MARKET**

Tenant demand is down and many tenants have returned space to the market.

Many landlords are being more generous with concessions and lowering rental rates.

#### **SUBURBAN MARYLAND OFFICE MARKET**

The investment arena is seeing little activity.

A recent "refi" deal indicates that funds are available under the right circumstances.

#### **WASHINGTON, DC OFFICE MARKET**

Investors continue to tout the presence of the U.S. government as a protector against a severe local contraction.

Many investors continue to look for investment opportunities in this market.

#### **NATIONAL FLEX/R&D MARKET**

Job cuts in the high-tech sector are causing a slowdown in tenant demand.

The shift in power from sellers to buyers is evident when analyzing this market's overall cap rate trends.

#### **NATIONAL WAREHOUSE MARKET**

The availability rate increased on both a year-over-year and quarterly basis in 2008.

Sales activity is lagging well behind prior years due to a challenging debt market and weakening fundamentals.

#### **NATIONAL APARTMENT MARKET**

Demand increased with the rise in foreclosures as many homeowners turned to rental properties as a housing option.

The rising number of foreclosed homes and unsold condominiums has increased competition in the rental market.

**NATIONAL NET LEASE MARKET**

The first half of 2009 will be extremely lackluster in terms of transaction activity.

Cash transactions for net lease assets will take precedence over leveraged deals in the immediate future.

**NATIONAL MEDICAL OFFICE BUILDINGS (MOB) MARKET**

The slowdown in deal flow that began in late 2008 persists.

Many investors don't expect value declines in the coming months

**NATIONAL LODGING HIGHLIGHTS**

The deceleration of the U.S. economy and the corresponding reduction in travel has greatly affected this sector.

Reduced pricing power, combined with a reduction in the share of lodging demand being accommodated by hotels in the higher-priced chain scales, is forecast to reduce the industry's ADR in 2009.

**NATIONAL FULL-SERVICE LODGING SEGMENT**

In 2008, the upscale chain-scale segment experienced a greater increase in supply than any of the other chain-scale segments in the lodging industry.

Occupancy has been negatively impacted by a dramatic decline in business travel relating to conferences, conventions, and meetings.

**NATIONAL ECONOMY/LIMITED-SERVICE LODGING SEGMENT**

The midscale-without-F&B (food and beverage) chain scale is expected to post a decrease in RevPAR for 2009.

As challenges mount for property owners, overall capitalization rates have increased.

**NATIONAL LUXURY/UPPER-UPSCALE LODGING SEGMENT**

Strong growth in average room supply and a decline in demand will combine to weaken this segment in 2009.

Some owners are concentrating on reducing operating costs to help boost operating income.

**NATIONAL EXTENDED-STAY LODGING SEGMENT**

A few hotel operators are launching new brands in this sector.

Supply growth in this sector continues to be much higher than the overall industry.