

# MARKETBEAT

## UNITED STATES OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q10

### ECONOMY

Now sixteen months underway, America's recovery has been less robust than desired but steady nonetheless. Real gross domestic product (GDP) increased at an annual rate of 2.0% in third quarter 2010 according to advanced estimates by the U.S. Bureau of Economic Analysis. Combined spending by consumers, businesses and government rose at an annual rate of 4.0%, the second-highest rate reported since early 2006. Imports, however, continued to outpace exports, driving overall GDP growth down 2.0%. Corporate profits have risen significantly over the past several quarters, which led to more investment and hiring. Indeed, business investment in equipment and software was up at a 12.0% annual rate in third quarter, the fourth consecutive quarter of double-digit growth. Meanwhile, private-sector payrolls increased in each of the past nine months and, since December, they were up 0.8% for a net gain of almost 863,000 jobs. Although that is just one-tenth of more than 8.5 million private-sector jobs lost since the peak of the last employment cycle in December 2007, it does show positive momentum from ongoing economic expansion is gradually spilling over into labor markets.

### OVERVIEW

Gradual expansion in the economy caused U.S. office market conditions to stabilize over the past nine months. Leasing activity is gaining speed, vacancy rates are holding steady and rental rate depreciation has slowed since the start of this year. Leasing of over 136.6 million square feet (msf) through September is up 24.7% from the same period in 2009 and just 16.5% lower than the long-run historical average. At 17.9%, overall vacancy is just 20 basis points (bps) higher than it was at the end of last year even though inventory has grown 0.5% in this time frame. Meanwhile, the weighted average of overall asking rents has fallen just 1.1% from December 2009 levels, well below the 3.8% decline recorded in the first three quarters of 2009.

The professional and business services sector (which accounted for 28.5% of this year's private-sector job growth) was behind 18.1% of all new and expansion leases closed year-to-date. Law firms like Crowell & Moring (which signed for 117,757 square feet (sf) in Washington D.C.), Freshfields Bruckhaus Deringer (which leased 107,000 sf in Midtown Manhattan), and Shook, Hardy & Bacon (which took 39,027 sf in San Francisco) were responsible for more than one-third of this activity. Financial service providers (including banks, insurance companies, financial advisors and securities dealers) were the next-most active, signing for 17.2% of office deals closed. Representative third quarter transactions include Allianz Global Investors (which signed for 213,000 sf in Midtown Manhattan), GE Asset Management (which signed for 158,605 sf in Fairfield County, Connecticut), and TransAmerica (which leased 140,528 sf in Baltimore). Government leasing was up substantially over last year, amounting to 15.0% of this year's activity. Indeed, the largest lease signed this year was a 900,000-sf commitment in third quarter by the Securities and Exchange Commission in Washington D.C.. Manufacturers were behind 12.7% of leasing to date. Significant deals this quarter included drug maker Sanofi-Aventis, which will expand into 110,000 sf in Cambridge, Massachusetts, baby product maker Kids II, which will relocate its headquarters in a 97,120-sf move to Atlanta, and Treehouse Foods' 48,000-sf headquarters relocation and expansion in the suburban Chicago area. Education and health services providers were the next-most-active in the market, with a 12.4% share of all new and expansion leases closed. Recent leases include Education Management Corp. (which took 100,885 sf in the suburbs of Phoenix), and Quest Diagnostics (which signed for 136,157 sf in the Philadelphia suburbs).

Because of this increased activity, eighteen of forty-one major markets tracked by Cushman & Wakefield reported overall vacancy rate declines since December, from as much as 220 basis points (bps) in Baltimore to as little as 20 bps in Suburban Maryland. One market (St. Petersburg/Clearwater, Florida) was unchanged, while thirteen had slight increases ranging from 30 to 90 bps. Mid-Atlantic and West Coast markets have seen greatest overall vacancy rate decreases, while Midwest and Southeast markets experienced lower vacancy rate increases than in 2009.

### FORECAST


U.S. corporate profits are now roughly back to pre-recession levels, which has enabled certain firms to increase investment spending over the past several quarters. However, small businesses (which are important job creators in an expanding economy) still face difficulties accessing credit and an uncertain regulatory environment. Until this situation eases, and banks free up some the \$1.2 trillion in assets currently locked up in the Federal Reserve, it will be large, well-capitalized companies that drive this economy in coming periods. By the second half of 2011, however, U.S. GDP is projected to be growing at a 5.1% annual rate which should spur a significant increase in hiring and, in turn, growing demand for commercial real estate.


### ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.6%	2.7%	3.1%
CPI Growth	-0.3%	1.6%	1.6%
Unemployment Rate	9.3%	9.7%	9.9%
Employment Growth	-4.3%	-0.5%	1.0%

Source: Moody's Analytics

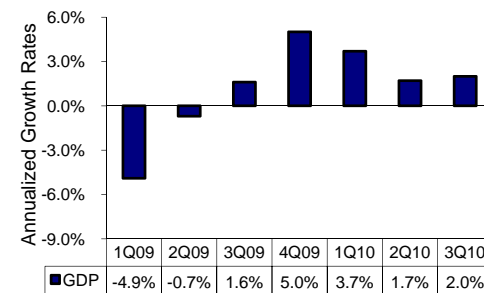
### MARKET FORECAST

**LEASING ACTIVITY** will outstrip last year's dismal pace as more tenants come out of hiding and take advantage of favorable market conditions. 

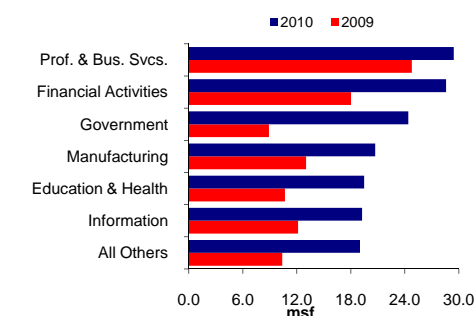
**ABSORPTION** is likely to remain weak over the next several quarters, but turn slightly positive next year as job growth accelerates. 

**SPECULATIVE CONSTRUCTION** is at a standstill for the foreseeable future after current projects deliver. 

### U.S. GROSS DOMESTIC PRODUCT (GDP)

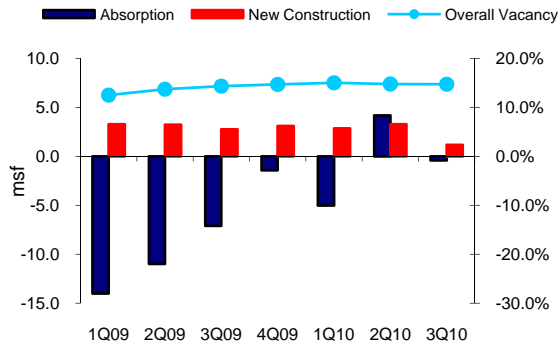


### LEASING ACTIVITY BY INDUSTRY (YTD)



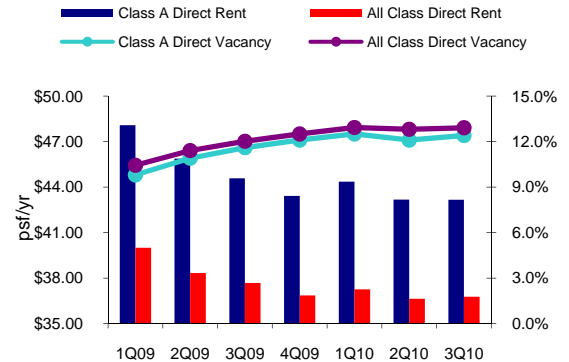
### CBD

#### OVERALL SUPPLY AND DEMAND TRENDS



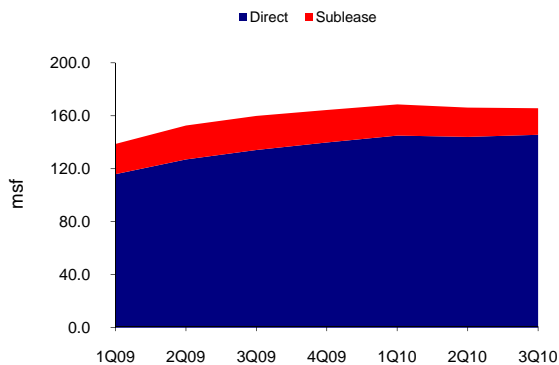
- After a good second quarter, overall absorption in CBD markets turned negative again, resulting in year-to-date occupancy losses of 1.2 msf. Eight out of Cushman & Wakefield’s 41 top markets saw strengthening take-up ranging from as much as 3.4 msf in Washington D.C. to as little as 49,011 sf in Tampa, Florida. The remaining reported negative absorption from as much as 2.3 msf in Downtown New York to as little as 1,485 sf in Oakland, California.
- CBD construction deliveries have been relatively steady over the past two years, with an average of 2.8 msf delivered each quarter. By third quarter, however, completions dwindled to less than 1.2 msf with just 1.9 msf scheduled come on line by year’s end. Next year, only four markets will see new projects finished: Houston, Boston, Washington D.C. and Portland.

#### DIRECT RENTAL RATES VS. VACANCY



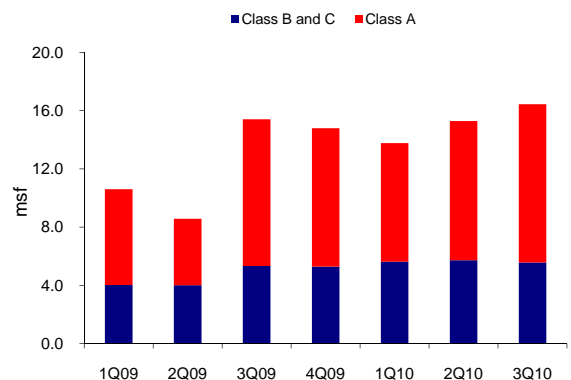
- Direct class A rents have on average been 19.2% higher than the direct weighted average of all classes. Yet, at \$43.16 psf as of September, they were just 17.4% above the all-class direct average of \$36.77 psf.
- The rate of decline has slowed dramatically. Class A rents were down 3.2% from year-ago levels, but just 0.6% lower than year-end 2009. The weighted average rent for all classes was 1.7% lower than third quarter 2009, but also just 0.2% lower compared to year-end.
- Overall rents are expected to flatten out over the next several quarters as demand stabilizes and landlords strive to remain competitive and increase occupancy rates. As vacancy rates come down, however, CBD rents will appreciate – especially class A.

#### OVERALL SPACE AVAILABILITY



- The amount of sublease space currently on the market has fallen 18.4% in the past nine months to just under 20.0 msf. Conversely, directly marketed space has increased 4.2% to 145.6 msf in this same period.
- A full 73.0% of all sublease offerings are in class A properties. Cities with large financial sectors had the highest amount of CBD subleases on the market, topped by New York, Chicago, Boston and San Francisco. Those with the lowest amount of sublease availabilities include New Haven, San Diego, Tampa and Fort Lauderdale.

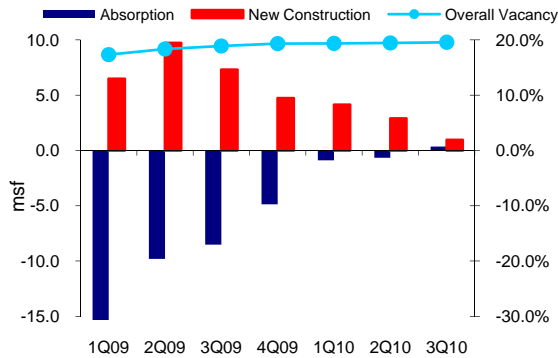
#### LEASING ACTIVITY



- Average quarterly leasing volumes in CBD markets have picked up steadily this year. Class B and C leasing is 21.0% higher than in 2009 with an average quarterly volume of 5.3 msf, while average quarterly leasing of class A space is up 24.0% at 9.5 msf.
- Government was behind 24.4% of the 52.8 msf leased to date. Financial activities and professional/business services were also busy with 20.5% and 19.4% shares, respectively. Important deals include Shell Oil’s 300,000-sf lease in Houston, Healthfirst’s 172,577-sf relocation in Downtown Manhattan, GETCO’s 100,000 sf lease in Chicago, and Williams Exploration & Productions’ 112,279-sf intra-market move in Denver.

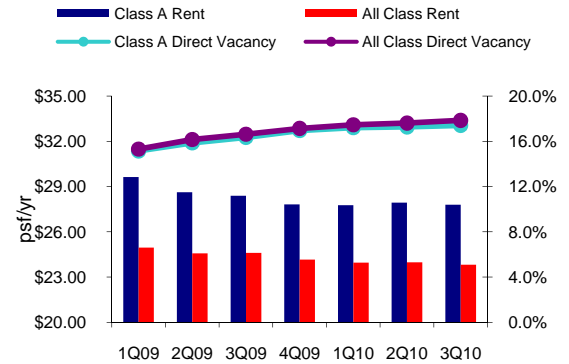
### SUBURBAN

#### OVERALL SUPPLY AND DEMAND TRENDS



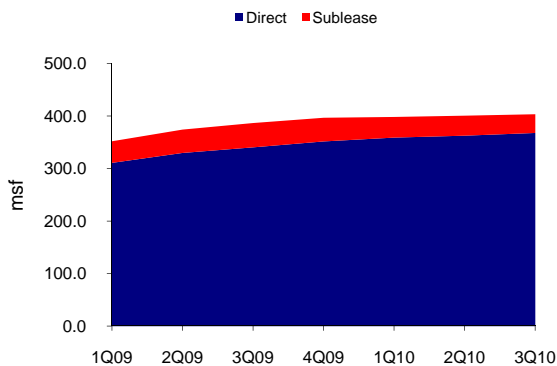
- After ten consecutive quarters of negative overall absorption, occupancy was up slightly in suburban markets, amounting to 359,441 sf. Overall vacancy, however, was virtually unchanged at 19.6% due to 948,533 sf of new projects coming on line.
- With just 6.5 msf slated for delivery through the end of next year and demand expected to gradually increase, suburban markets are poised for a turn-around in coming quarters. Class A should see greatest uptick as well-capitalized legacy companies seek to take advantage of tenant-friendly market conditions.

#### DIRECT RENTAL RATES VS. VACANCY



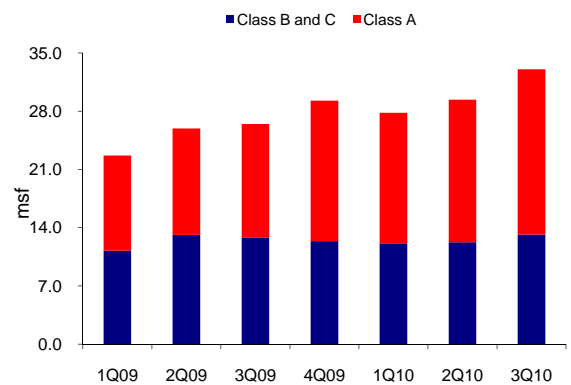
- Class A direct rents in suburban markets are typically 15.6% above average direct rents for all classes yet, at the end of third quarter, the spread has widened to 16.7%.
- Year-over-year, class A rental rates have decreased 2.1% to a direct weighted average of \$27.80 psf at the close of third quarter while direct class A vacancies have risen 110 bps to 17.4%.
- In comparison, direct rents for all classes have fallen 5.7% in the past twelve months to \$24.05 psf even though direct vacancies moved 120 bps higher during the same time frame to 17.9%.

#### OVERALL SPACE AVAILABILITY



- Sublease availabilities have fallen from 11.2% of total space on the market at the end of 2009 to just 8.8% at the close of C&W's third quarter survey. During the same time frame directly-marketed space has increased 4.5%. This translated into a 70 bps increase in direct vacancy rates, now at 17.9%, while inventory grew just 0.4%.
- This suggests suburban markets are stabilizing, with significantly fewer tenants downsizing and closing offices.
- While there has been some take-up of sublease space, transactions that have closed are typically trophy-grade offerings at significant discounts with reasonably-long lease terms in place (e.g., 3-10 years). Representative transactions include Rally Software's 65,545-sf sublease in Boulder, Colorado, Schwan Consumer Brand's 41,712-sf sublease in Bloomington, Minnesota, and One West Bank's 24,762-sf sublease in Santa Monica, California.

#### LEASING ACTIVITY



- Leasing activity in suburban markets has clearly picked up over the past three quarters, amounting to a total of 90.2 msf through third quarter.
- Average quarterly lease volumes for class B and C properties has been virtually flat compared to last year, up to 1.0% to 12.5 msf. In comparison, quarterly leasing of class A space has risen 28.3% over 2009 to an average of 17.6 msf.
- By industry, suburban leasing activity has been driven by professional/business services (16.9%), manufacturing (15.9%), financial activities (15.8%), information (15.3%) and education and health (14.2%). Significant third-quarter transactions include Trax International's 120,000-sf lease in Suburban Maryland, Sonus Networks' 90,300-sf signing in Westford, Massachusetts, and SolarCity's 68,025-sf commitment in the San Francisco Peninsula area.

### MARKET STATISTICS

MARKET	INVENTORY		OVERALL VACANCY RATE		YTD LEASING ACTIVITY		YTD CONSTRUCTION COMPLETIONS		YTD OVERALL ABSORPTION		DIRECT WEIGHTED AVERAGE CLASS A GROSS RENTAL RATE*	
	CBD	SUBURBAN	CBD	SUBURBAN	CBD	SUBURBAN	CBD	SUBURBAN	CBD	SUBURBAN	CBD	SUBURBAN
Atlanta, GA	15,463,139	126,894,377	21.9%	21.5%	597,781	6,006,163	0	1,606,895	249,812	(373,462)	\$20.41	\$25.04
Austin, TX**	8,811,067	34,314,018	16.5%	21.8%	****	****	0	75,509	52,172	560,988	\$37.63	\$25.69
Baltimore, MD	13,835,403	50,954,228	18.0%	12.7%	258,604	1,788,310	0	638,912	(99,480)	984,023	\$25.77	\$27.24
Bellevue, WA**	8,155,905	22,951,025	16.5%	17.9%	422,974	1,406,031	0	0	(179,762)	43,632	\$32.94	\$27.94
Binghamton, NY**	2,127,731	2,540,894	15.7%	9.0%	9,195	8,722	****	****	(17,557)	(29,620)	\$11.56	\$14.13
Birmingham, AL**	5,165,764	12,844,643	8.6%	17.7%	79,074	273,786	0	0	43,314	(116,464)	\$20.54	\$21.55
Boston, MA	59,972,980	121,761,331	13.6%	21.2%	2,090,685	6,104,600	504,000	1,124,544	(1044,727)	205,453	\$43.47	\$26.60
Buffalo, NY**	10,379,834	9,987,738	13.2%	7.8%	105,417	241,380	0	0	****	****	\$22.00	\$23.50
Charlotte, NC**	17,023,832	31,448,447	12.1%	19.5%	****	****	2,467,811	386,620	15,1520	332,340	****	****
Chicago, IL	121,149,638	93,591,363	16.5%	24.6%	2,924,055	3,617,185	****	160,000	(290,256)	(833,059)	\$38.28	\$24.94
Cincinnati, OH**	12,511,277	22,403,264	18.3%	24.9%	****	****	0	50,000	(192,495)	(348,055)	\$24.49	\$21.22
Cleveland, OH**	34,636,995	104,649,201	13.6%	10.3%	253,898	771,733	****	****	(20,576)	(279,446)	\$21.55	\$21.89
Columbus, OH**	9,908,630	20,625,503	18.2%	18.8%	126,478	712,912	****	****	(98,341)	(319,327)	\$17.50	\$16.00
Contra Costa, CA	****	31,994,848	****	17.0%	****	1,030,803	****	0	****	571,471	****	\$24.60
Dallas, TX	28,580,098	150,505,966	29.1%	24.0%	682,091	8,007,527	0	345,000	(326,658)	(542,999)	\$24.38	\$25.14
Denver, CO	26,632,823	76,468,377	15.7%	18.4%	2,115,289	5,618,937	495,518	484,617	878,768	954,589	\$30.10	\$21.82
Detroit, MI**	25,055,535	68,191,401	22.5%	27.0%	289,220	1,556,268	0	23,988	(695,553)	(792,388)	\$22.02	\$19.69
Downtown, NY	86,194,802	****	12.1%	****	2,490,714	****	0	****	(2,394,892)	****	\$44.36	****
Fairfield County, CT	6,832,948	34,023,052	24.2%	18.4%	239,980	1,867,753	0	0	(204,041)	(292,493)	\$43.71	\$31.86
Fredericksburg, VA**	****	8,165,617	****	15.4%	****	215,384	****	187,100	****	23,039	****	\$25.85
Ft. Lauderdale, FL	5,078,565	24,773,204	18.6%	17.5%	262,732	1,026,340	0	89,000	(86,113)	237,486	\$32.98	\$29.68
Hampton Roads, VA**	5,011,040	40,384,038	5.4%	12.1%	11,092	944,799	299,887	336,393	26,373	100,521	\$23.81	\$21.21
Hartford, CT	7,976,010	17,618,220	25.2%	16.8%	116,868	603,544	0	0	(15,198)	(447,342)	\$23.08	\$20.56
Houston, TX	36,039,828	129,770,554	12.7%	17.1%	2,059,885	5,899,016	0	129,022	(288,495)	36,163	\$36.73	\$29.24
Indianapolis, IN**	10,764,040	24,673,883	20.1%	23.5%	373,213	660,260	0	0	(128,828)	(491,517)	\$20.41	\$19.21
Inland Empire, CA	****	18,936,375	****	25.0%	****	724,566	****	70,837	****	58,991	****	\$25.76
Kansas City, MO**	7,578,119	17,142,471	19.0%	23.5%	333,253	618,318	0	0	214,418	(112,835)	\$21.05	\$20.69
Kansas City, MO**	12,515,477	33,579,465	19.3%	18.3%	201,612	867,655	0	65,726	(29,245)	(192,589)	\$21.38	\$21.43
Las Vegas, NV**	2,043,505	40,733,409	16.4%	23.5%	70,891	2,077,143	0	20,895	(77,762)	(945,178)	\$33.48	\$26.64
Long Island, NY	****	31,963,895	****	18.1%	****	344,168	****	0	****	(569,521)	****	\$32.77
Los Angeles, CA***	28,480,147	165,144,342	17.8%	18.7%	735,323	6,819,440	0	367,658	(4,5197)	(338,451)	\$35.46	\$34.72
Louisville, KY**	9,161,133	10,721,744	12.8%	17.9%	81,557	264,400	0	0	(8,094)	72,244	\$20.11	\$19.05
Memphis, TN**	5,233,116	21,026,282	17.4%	14.9%	14,664	350,718	0	147,982	(30,169)	94,726	\$16.53	\$21.57
Miami, FL	13,683,468	35,635,807	19.6%	17.6%	551,344	1,145,204	1316,403	230,000	(35,559)	369,995	\$43.50	\$32.39
Midtown, NY	241,466,399	****	11.0%	****	13,012,634	****	10,566,851	****	450,440	****	\$69.25	****
Midtown South, NY	64,907,189	****	9.2%	****	3,313,068	****	37,434	****	834,267	****	\$52.62	****
Milwaukee, WI**	10,649,210	17,836,255	21.6%	20.7%	245,325	969,539	0	135,290	(80,559)	(92,411)	\$23.61	\$20.42
Minneapolis, MN	35,036,521	44,735,821	19.5%	19.8%	****	****	0	329,290	(14,872)	547,634	\$27.56	\$27.08
Nashville, TN**	7,680,427	23,180,911	23.3%	11.2%	187,361	836,119	0	557,437	142,381	652,691	\$23.74	\$22.21
New Haven, CT	2,867,835	7,287,013	13.0%	14.0%	54,711	131,127	0	0	(58,482)	(19,848)	\$29.85	\$21.75
New Jersey - Central	****	75,053,201	****	21.8%	****	1,841,971	****	339,865	****	(956,361)	****	\$24.54
New Jersey - Northern	****	107,066,343	****	17.2%	****	3,161,247	****	0	****	(1,206,015)	****	\$29.06
Northern Virginia	****	129,356,890	****	15.4%	****	5,515,496	****	100,000	****	231,761	****	\$33.20
Oakland, CA	13,032,426	13,463,054	16.7%	21.7%	668,296	541,525	0	67,186	(1,485)	(274,080)	\$31.33	\$27.41
Oklahoma City, OK**	6,543,020	10,190,065	23.1%	12.6%	****	****	0	0	23,056	21,645	\$14.98	\$19.38
Orange County, CA	36,449,647	46,711,001	23.8%	20.0%	2,419,950	2,834,091	0	0	(412,500)	(288,084)	\$27.87	\$26.20
Orlando, FL	7,513,166	30,567,219	18.8%	22.7%	268,818	1,256,827	0	0	(25,406)	(432,761)	\$26.36	\$22.93
Palm Beach, FL	3,154,034	22,575,456	25.0%	24.9%	127,235	935,951	0	0	(42,794)	520,216	\$42.46	\$33.14
Philadelphia, PA	43,716,633	87,115,325	12.6%	16.9%	700,893	2,502,800	0	383,804	(999,112)	(44,125)	\$27.75	\$25.21
Phoenix, AZ	16,369,514	59,769,355	22.6%	28.4%	198,377	2,621,727	740,000	374,498	(149,961)	(399,060)	\$29.33	\$25.51
Pittsburgh, PA**	21,546,482	28,977,114	17.7%	20.5%	992,092	1,365,138	0	51,876	(12,108)	241,049	\$22.66	\$21.71
Portland, OR	20,810,985	21,284,406	11.6%	20.5%	691,366	813,532	346,440	70,020	55,1245	164,929	\$26.69	\$23.15
Raleigh/Durham, NC**	5,582,306	36,547,823	****	****	****	****	0	464,509	****	****	\$22.61	\$21.05
Richmond, VA**	11,467,454	46,092,944	14.3%	10.6%	83,800	1,210,530	231,000	39,871	108,842	26,319	\$25.75	\$18.40
Roanoke, VA**	3,951,932	7,998,014	8.2%	8.4%	21,663	102,552	0	0	(19,670)	(11,762)	\$23.30	\$15.25
Rochester, NY**	6,234,178	7,173,832	20.3%	11.7%	****	****	****	****	****	****	\$21.00	\$19.25
Salt Lake City, UT**	7,192,474	24,127,322	16.9%	16.9%	518,579	1,504,286	0	318,000	326,872	(8,985)	\$28.84	\$23.20
San Diego, CA	11,087,949	61,501,904	15.7%	16.1%	548,776	3,746,201	0	311,225	(65,996)	804,849	\$28.68	\$30.72
San Francisco Peninsula, CA	****	34,913,121	****	14.9%	****	2,993,920	****	23,011	****	451,857	****	\$31.91
San Francisco, CA	49,168,053	25,538,542	12.9%	20.4%	2,832,293	1,357,272	0	0	(387,381)	(645,101)	\$38.68	\$28.85
San Juan, PR**	6,006,667	9,774,348	10.5%	16.6%	****	****	****	****	****	****	\$20.62	\$18.35
Savannah, GA**	1,236,797	2,135,393	25.2%	21.4%	****	****	****	****	****	****	\$20.20	\$22.62
Seattle, WA**	40,959,271	8,945,122	21.6%	22.7%	2,527,718	316,593	861,554	162,866	25,100	(81,812)	\$30.43	\$21.91
Silicon Valley, CA	6,547,818	37,616,919	25.1%	19.2%	225,000	3,603,447	0	561,698	(135,366)	988,287	\$35.25	\$31.05
Southern New Hampshire	****	12,511,866	****	21.8%	****	294,508	****	0	****	(91,401)	****	\$16.50
St. Louis, MO**	12,987,327	37,288,337	26.8%	14.3%	439,570	1,426,259	0	485,250	(17,952)	317,596	\$18.88	\$23.45
St. Petersburg/Clearwater, FL	****	13,214,684	****	23.7%	****	558,805	****	0	****	(7,681)	****	\$20.87
Suburban Maryland	****	55,106,306	****	17.6%	****	2,533,558	****	313,130	****	193,515	****	\$32.17
SWFL (Fort Myers, FL)**	****	16,932,194	****	18.8%	****	****	****	****	****	****	****	\$14.18
SWFL (Naples, FL)**	****	8,279,382	****	20.3%	****	****	****	****	****	****	****	\$19.09
Syracuse, NY**	6,978,549	10,025,560	28.1%	15.9%	96,745	146,650	128,000	0	(190,747)	27,602	\$16.60	\$17.49
Tampa, FL	6,371,629	25,728,244	18.9%	18.9%	251,366	1,077,981	0	0	49,011	(79,483)	\$22.51	\$24.30
Tucson, AZ**	4,160,606	18,868,143	7.6%	13.2%	39,221	321,155	0	82,891	(32,663)	(198,813)	\$22.58	\$24.11
Tulsa, OK**	7,812,870	12,618,092	21.1%	23.4%	****	****	0	0	69,418	(52,714)	\$17.30	\$18.58
Washington D.C.	103,954,190	****	13.3%	****	4,467,923	****	2,523,171	****	3,414,747	****	\$55.52	****
Westchester County, NY	6,307,675	22,061,011	16.3%	17.5%	185,641	671,022	0	0	(162,807)	(545,131)	\$33.02	\$30.91
<b>TOTAL - ALL MARKETS</b>	<b>1,465,719,082</b>	<b>2,895,927,514</b>	<b>15.5%</b>	<b>18.7%</b>	<b>52,785,710</b>	<b>108,764,893</b>	<b>11,288,069</b>	<b>12,172,505</b>	<b>(737,584)</b>	<b>(2,744,799)</b>	<b>\$33.83</b>	<b>\$22.12</b>
<b>TOTAL - C &amp; W MARKETS</b>	<b>1,126,249,631</b>	<b>2,060,356,091</b>	<b>14.7%</b>	<b>19.6%</b>	<b>45,494,351</b>	<b>90,214,881</b>	<b>7,299,817</b>	<b></b>				