

# MARKETBEAT

## UNITED STATES OFFICE REPORT

4Q10

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

### ECONOMY

America's recovery gained traction over the course of 2010 as uncertainties that led consumers and businesses to remain cautious began to lift. Consumer and business spending picked up significantly and led to steady growth in real gross domestic product (2.9% for 2010). This has yet to translate into a hiring boom or meaningful decline in unemployment, but it did lead to some modest employment growth during the year. As of December, non-farm employment was up by more than 1.1 million workers from one year ago while the unemployment rate edged down one-half percentage point to 9.4%. Over a quarter (27.4%) of new jobs added in the past twelve months were in temporary services indicating that, while businesses have been reluctant to hire, they are feeling pressure from being short-handed. This is likely to result in more permanent hiring in the coming year. Employment in the key office-using industries (financial, professional business services and information) increased by 257,000 jobs while the manufacturing and distribution sectors recorded an increase of approximately 155,000 jobs, most of which (136,000) were in manufacturing.

### OVERVIEW

U.S. office market performance mirrored these economic trends. As employment increased vacancy rates generally peaked and began to decline. After a sluggish start in 2010 punctuated by financial market instability and lingering consumer weakness, companies with access to capital began to engage the market and take advantage of the decline in rents during the recession. The result was a classic "flight to quality" as well-capitalized firms leased space in top tier buildings while weaker firms were unable to take advantage of market conditions. This led to a stronger take-up of high-grade space in top markets but below-average demand for class B and C properties everywhere.

Overall absorption of class A space in C&W's 41 primary markets amounted to just under 13.0 million square feet (msf) while total overall absorption was 1.9 msf, representing a net loss in class B and C occupancy. Leasing activity, likewise, exhibited a similar trend. Class A volumes accounted for 60.3% of all new and expansion deals signed in 2010, compared to an average of 56.9% between 2002 and 2007 during the last expansion.

Major metro areas with strong Central Business Districts (CBDs), abundant infrastructure, educated and versatile labor forces, and an existing pool of well-capitalized industries fared best. New York City reported phenomenal vacancy increases during the height of the last recession in 2008 and 2009. By year-end 2010, however, the Midtown and Midtown South Manhattan markets recorded almost 2.9 msf of overall positive absorption and a 1.4 percentage point decline in overall vacancy. Washington, D.C. and the surrounding markets of Northern Virginia and Suburban Maryland collectively had almost 4.2 msf of negative overall absorption in 2009 but rebounded this year with almost 5.7 msf of positive overall absorption – the strongest recorded since 2006. Denver had over 2.7 msf of negative absorption in 2009 but also bounced back in 2010 with almost 2.6 msf of positive overall absorption and a 1.7 percentage point overall vacancy decline. Baltimore, Portland, Northern Virginia, Minneapolis, Contra Costa and Miami also saw good take-up this year.

Rents remain depressed throughout most of country. Markets bucking this trend included Washington D.C. (where overall rents jumped 9.1% year-over-year to \$46.71 per square foot (psf)), Boston (with a 2.6% increase to \$25.86 psf overall), and Midtown Manhattan (with a 1.0% gain, ending at an overall rate of \$62.46 psf). For those still experiencing falling rents, declines ranged from as little as 0.1% in Phoenix (at \$21.67 psf overall) to as much as 11.5% in the San Francisco Peninsula area (to \$29.25 psf overall).

### FORECAST


U.S. GDP is projected to grow another 3.9% in 2011, which should spur more hiring and, in turn, more demand for office space. Job growth will likely be below trend, however, and it could be years before the 8.4 million jobs recently lost in the recession are replaced. Look for well-capitalized companies to drive expansion in the near term as smaller firms deal with ongoing credit constraints. Major markets are expected to tighten as the economy picks up, but only a few are likely to see significant rental rate appreciation over the next six to eight quarters.


### ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.6%	2.9%	3.9%
CPI Growth	-0.3%	1.6%	1.5%
Unemployment Rate	9.3%	9.6%	9.5%
Employment Growth	-4.3%	-0.5%	1.7%

Source: Moody's Analytics

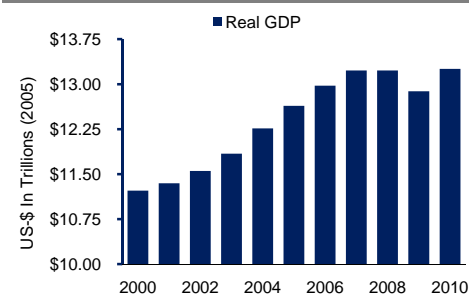
### MARKET FORECAST

**LEASING ACTIVITY** will gradually increase as the economy grows and companies continually innovate to optimize operational efficiencies and minimize occupancy costs. 

**ABSORPTION** should strengthen over the next several quarters as job growth accelerates. Class A properties realize greatest take-up, while B and C buildings face more challenges. 

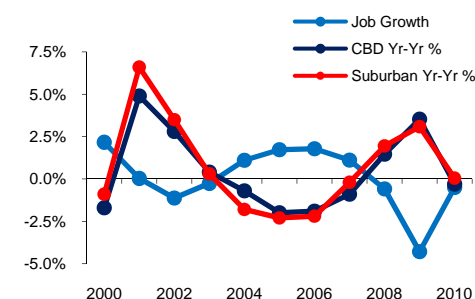
**SPECULATIVE CONSTRUCTION** is at a standstill for the foreseeable future after current projects are delivered. 

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



Source: U.S. Bureau of Economic Analysis

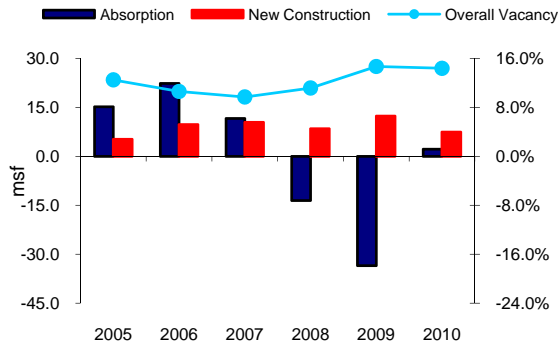
### CHANGE IN JOB GROWTH VS. VACANCY



Source: U.S. Bureau of Labor Statistics, Cushman & Wakefield

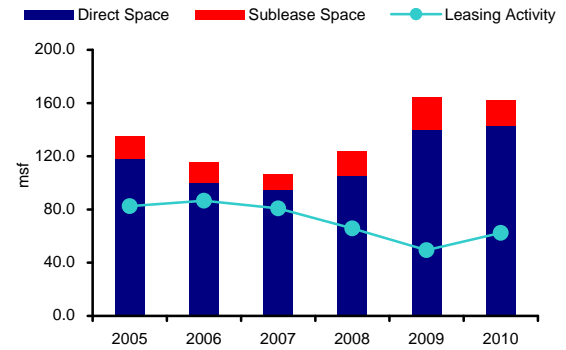
### CBD

#### OVERALL SUPPLY AND DEMAND TRENDS



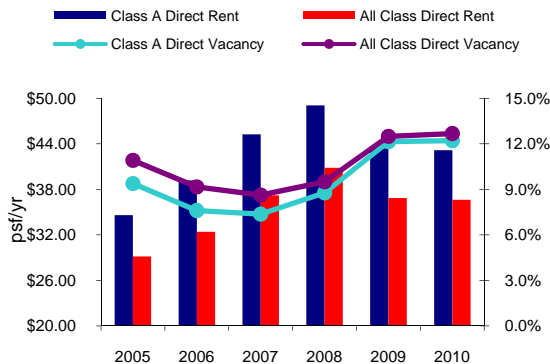
- After two progressively bad years, overall absorption in CBD markets turned positive again and resulted in occupancy gains just under 2.2 msf. Twelve out of Cushman & Wakefield's 30 top CBD markets saw strengthening take-up ranging from as much as 4.3 msf in Washington, D.C., to as little as 17,776 sf in Tampa. The remaining had negative absorption from as much as 1.9 msf in Downtown New York to as little as 5,169 sf in Oakland.
- CBD construction deliveries have been relatively steady over the past several years, with an average of 9.2 msf delivered annually since 2005. By 2010, however, completions dwindled to less than 7.5 msf and only 4.3 msf is scheduled come on line in 2011.

#### AVAILABLE SPACE VS. LEASING ACTIVITY



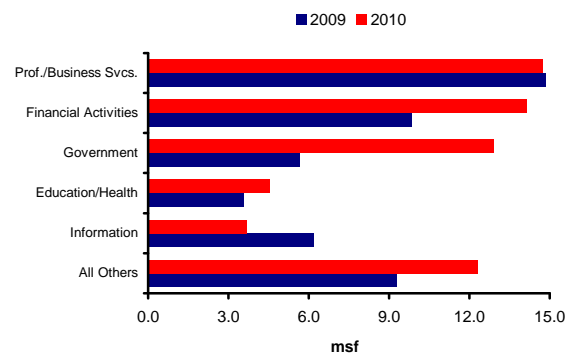
- The amount of sublease space has fallen by 5.3 msf over the past twelve months to 19.2 msf, while the amount of directly-marketed space has increased by 3.0 msf to 142.9 msf. Sublease availabilities now account for 11.9% of all space on the market – the lowest proportion since 2007.
- New and expansion leasing activity of just under 62.4 msf is up 26.3% from 2009, but still 21.9% lower than the 79.9 msf averaged in CBDs in the last up-cycle between 2003 and 2007.
- Leasing activity is expected to escalate over the next several quarters, but it will be difficult to reach previous heights as companies continue to tighten occupancy footprints.

#### DIRECT RENTAL RATES VS. VACANCY



- Class A rental rates have fallen for the past two years, but the rate of decline slowed considerably over the course of 2010. At \$43.16 psf, direct class A rents were just 0.6% lower than one year ago compared to an 11.5% year-over-year decrease realized in 2009. Direct rents for all classes were just 0.6% lower than last year at \$36.63 psf.
- Vacancies are also flattening in CBD markets, with direct class A rates just 0.1 percentage points higher than last year at 12.2% and all class direct rates up 0.2 percentage points year-over-year to 12.7%.
- Look for class A vacancy rates to tighten over 2011, as flight to quality continues. Class A rents are also likely to appreciate next year in top metro markets. Other classes languish through 2012 until the economy strengthens further.

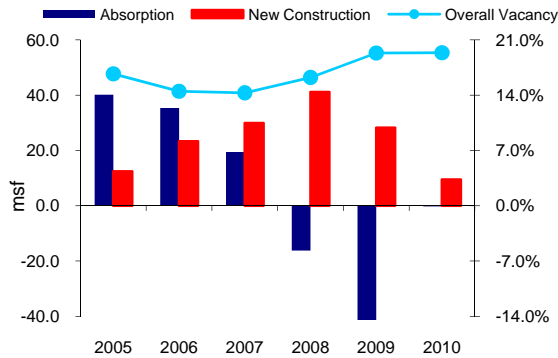
#### LEASING ACTIVITY BY INDUSTRY



- The big story for 2010 is that several major sectors increased CBD leasing activity over last year – a sign of improving confidence.
- The professional/business services sector accounted for 23.6% of this year's activity, down slightly from 2009 but still representative of this industry's preference for CBD space. Financial services providers were behind 22.7% of 2010 leases signed, amounting to 14.2 msf (up 44.1% year-over-year). Government agencies also beefed up their CBD presence, committing to over 12.9 msf (a 20.7% share, compared to 7.9% in 2009).
- Noteworthy transactions included the Security and Exchange Commission's 900,000-sf intra-market relocation in Washington, D.C., Deloitte's 436,139-sf lease in Midtown Manhattan, and MFS Investment Management's 295,327-sf signing in Boston.

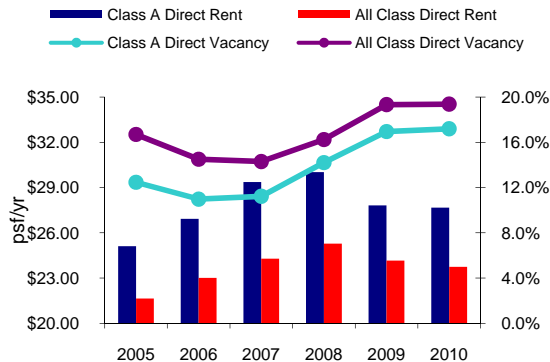
### SUBURBAN

#### OVERALL SUPPLY AND DEMAND TRENDS



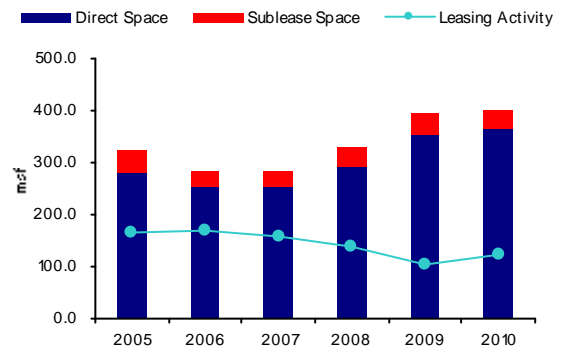
- Negative overall absorption in suburban markets of just over 0.2 msf in 2010 is a substantial improvement over the past two years. Eighteen out of Cushman & Wakefield's 37 top suburban markets reported positive take-up in 2010, ranging from as little as 30,394 sf in St. Petersburg/Clearwater to as much as over 1.4 msf in Denver. Occupancy losses ranged from 14,819 sf in Jacksonville to more than 2.2 msf in Los Angeles.
- Overall suburban market vacancy at 19.4% was virtually unchanged from 2009 despite the addition of 9.7 msf of new supply. With just 5.4 msf slated for delivery next year and demand expected to gradually increase, suburban markets are poised for a turn-around.

#### DIRECT RENTAL RATES VS. VACANCY



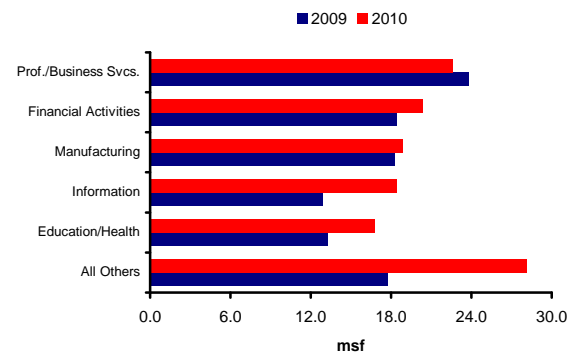
- Year-over-year, class A rental rates decreased just 0.5% to a direct weighted average of \$27.67 psf at the close of 2010 while direct class A vacancies increased just 20 bps 17.2%.
- In comparison, direct rents for all classes fell 2.5% in the past twelve months to \$23.94 psf as direct vacancies edged 60 bps higher during the same time frame to 17.8%.
- Rents should remain relatively flat through in the medium term until demand pushes vacancy rates back down into the 16.0% to 17.0% range. Inflationary pressures could surface in top markets, however, as landlords become increasingly unwilling to shoulder burdens of rising operating costs and taxes on such slim margins.

#### AVAILABLE SPACE VS. LEASING ACTIVITY



- Sublease availabilities have fallen to just 8.8% of all space currently on the market – the lowest proportion in over five years. Directly marketed space, however, increased by 4.1% over the past twelve months to just under 366.4 msf.
- Leasing activity of 124.1 msf was up 18.9% from 2009, but still 21.8% lower than the suburban average in the last up-cycle between 2003 and 2007 of 158.7 msf. While activity should continue to pick up in coming quarters and serve to reduce vacancy levels, suburban space requirements are unlikely to return to heights reached in the last decade – partly because of higher efficiencies, but also due to growing preferences for urban accommodations.

#### LEASING ACTIVITY BY INDUSTRY



- As in CBD markets, confidence has clearly improved in 2010 allowing more prospective tenants to take advantage of tenant-friendly market conditions.
- By industry, suburban leasing activity has been driven by professional/business services (18.2%), financial activities (16.4%), manufacturing (15.2%), information (14.8%) and education and health (13.5%). Significant transactions included CIGNA taking 232,648 sf in Phoenix, Atlantic Health Systems leasing 190,000 in Northern New Jersey, Scitor Corporation (signing for 158,413 sf in Northern Virginia, and Lucent Government Solutions committing to 133,352 sf in Denver.

# MARKETBEAT

## UNITED STATES OFFICE REPORT 4Q10

### 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	127,067,211	22.2%	22.0%	699,110	8,368,950	0	1666,895	204,323	(614,378)	\$20.23	\$24.84
Austin, TX**	8,561,401	34,417,690	16.9%	20.8%	****	****	85,285	75,509	26,183	636,903	\$37.23	\$25.53
Baltimore, MD	13,835,403	51,995,284	18.2%	12.8%	420,866	2,509,836	0	1,261,080	(127,206)	1,325,824	\$24.77	\$27.32
Bellevue, WA**	8,159,725	22,831,883	16.5%	17.1%	565,893	1,820,846	0	0	(183,151)	242,616	\$32.66	\$27.67
Binghamton, NY**	193,609	2,473,493	16.5%	8.7%	12,215	9,872	****	****	(28,102)	(15,745)	\$11.56	\$13.27
Birmingham, AL**	5,165,764	12,184,643	8.0%	17.6%	137,021	424,723	0	0	75,052	(170,738)	\$20.96	\$21.43
Boston, MA	60,042,762	121,810,744	13.8%	21.7%	3,755,442	7,906,595	504,000	1,124,544	(1,298,155)	(623,413)	\$44.21	\$26.98
Buffalo, NY**	10,379,834	9,987,738	13.2%	6.7%	110,290	353,843	0	0	0	0	\$22.00	\$23.50
Chicago, IL	121,349,638	93,022,573	16.4%	23.7%	4,603,053	5,406,525	0	160,000	(437,634)	(85,268)	\$37.32	\$24.76
Cincinnati, OH**	12,555,791	22,417,264	18.3%	23.7%	****	****	0	50,000	(201,482)	(54,753)	\$24.56	\$21.31
Cleveland, OH**	34,631,662	105,782,111	18.5%	10.2%	358,119	1,118,465	****	****	69,245	619,906	\$21.32	\$21.75
Columbus, OH**	9,908,630	20,578,774	18.2%	18.6%	214,989	957,790	****	****	(112,475)	(207,894)	\$17.50	\$15.00
Contra Costa, CA	****	31,994,848	****	16.3%	****	1,398,702	****	0	0	795,092	****	\$24.36
Dallas, TX	28,580,098	150,466,079	28.8%	23.6%	818,169	11,392,660	0	345,000	(347,089)	(237,472)	\$24.54	\$24.98
Denver, CO	26,739,949	76,813,047	14.6%	17.8%	2,730,124	7,553,135	495,518	507,075	1,112,511	1,448,410	\$29.96	\$21.76
Detroit, MI**	25,055,535	68,139,867	23.6%	27.3%	350,927	2,044,288	0	68,438	(957,173)	(1,033,851)	\$22.35	\$19.63
Downtown NY	86,184,802	****	11.5%	****	3,377,680	****	0	****	(192,424)	****	\$44.52	****
Fairfield County CT	6,832,948	34,057,941	23.1%	18.3%	406,633	2,533,391	0	0	(147,357)	(262,233)	\$44.17	\$32.88
Fredericksburg, VA**	****	8,490,162	****	12.2%	****	348,991	****	187,100	****	179,478	****	\$25.59
Ft. Lauderdale, FL	5,078,565	24,773,204	19.0%	17.1%	339,755	1,366,529	0	89,000	(10,196)	112,770	\$32.71	\$30.00
Hampton Roads, VA**	5,024,405	40,735,429	16.7%	11.9%	143,318	1,144,681	299,887	397,895	(1,520)	88,750	\$23.49	\$21.04
Hartford, CT	7,976,010	17,632,019	25.9%	18.4%	195,616	820,486	0	0	(206,170)	(489,456)	\$22.97	\$20.46
Houston, TX	36,039,828	129,894,068	13.1%	16.7%	1,553,652	7,307,028	0	181,522	(349,418)	755,590	\$36.63	\$28.82
Indianapolis, IN**	10,779,774	24,680,602	19.8%	23.7%	406,945	1,015,185	0	0	(82,151)	(420,448)	\$20.45	\$19.22
Inland Empire CA	****	18,936,375	****	25.1%	****	915,806	****	70,837	****	152,492	****	\$25.64
Jacksonville, FL	7,578,119	17,166,618	20.7%	22.6%	389,721	1,016,466	0	0	71,000	47,377	\$19.74	\$20.59
Kansas City, MO**	12,515,477	33,579,465	19.3%	18.3%	201,612	867,655	0	131,452	(29,245)	(192,589)	\$21.38	\$21.43
Las Vegas, NV**	2,043,505	40,231,658	14.5%	22.2%	78,489	3,058,452	0	20,895	(79,396)	(600,188)	\$33.78	\$32.20
Long Island NY	****	31,979,037	****	19.5%	****	1,865,349	****	0	****	(701,266)	****	\$32.97
Los Angeles, CA**	28,480,147	165,177,902	17.6%	18.7%	972,940	9,396,054	0	367,658	(433,345)	(2,252,352)	\$35.43	\$34.43
Louisville, KY**	9,161,133	10,721,744	12.7%	17.8%	111,894	423,508	0	0	(2,851)	83,328	\$20.13	\$18.96
Memphis, TN**	5,270,315	20,992,168	15.1%	15.1%	213,801	455,541	0	147,982	(86,916)	36,767	\$17.48	\$21.39
Miami, FL	13,683,468	35,656,546	20.4%	16.8%	762,681	1,852,847	13,164,043	230,000	136,831	449,234	\$43.62	\$32.39
Midtown NY	241,466,399	****	10.6%	****	18,859,000	****	1,056,851	****	1,687,286	****	\$70.53	****
Midtown South NY	65,059,461	****	8.6%	****	4,082,887	****	469,706	****	1,822,224	****	\$56.41	****
Milwaukee, WI**	10,649,210	17,836,255	23.3%	21.0%	333,571	1,433,917	0	135,290	(236,961)	(174,962)	\$23.61	\$20.42
Minneapolis, MN	35,036,521	44,735,821	18.7%	19.5%	****	****	0	329,290	174,327	659,388	\$27.44	\$27.01
Nashville, TN**	7,568,727	23,415,164	24.2%	10.6%	210,296	1,058,869	0	557,437	134,949	816,181	\$23.69	\$22.21
New Haven, CT	2,867,835	7,287,013	12.8%	14.0%	65,225	477,746	0	0	(59,690)	(149,451)	\$29.47	\$22.03
New Jersey - Central	****	75,893,040	****	21.2%	****	2,718,405	****	359,865	****	(762,784)	****	\$24.61
New Jersey - Northern	****	107,257,793	****	17.3%	****	4,367,761	****	0	****	(1,580,392)	****	\$29.04
Northern VA	****	129,526,890	****	14.9%	****	7,023,448	****	270,000	****	960,520	****	\$32.98
Oakland, CA	13,032,426	13,658,788	16.7%	21.2%	901,665	708,698	0	80,000	(5,169)	(226,550)	\$31.42	\$26.62
Oklahoma City, OK**	6,543,020	10,190,065	23.3%	12.4%	****	****	0	0	73,056	66,645	\$14.98	\$19.38
Orange County, CA	36,474,420	46,746,403	22.6%	19.4%	3,407,988	3,623,853	0	0	25,023	(147,961)	\$27.79	\$25.46
Orlando, FL	7,519,184	30,625,028	19.1%	22.1%	411,997	1,694,101	0	0	(22,833)	(328,803)	\$25.72	\$22.39
Palm Beach, FL	3,154,034	21,730,734	24.0%	21.6%	176,813	1,539,692	0	0	(20,707)	167,367	\$41.04	\$33.49
Philadelphia, PA	43,716,633	87,458,632	12.8%	16.9%	981,548	3,702,036	0	443,804	(992,220)	(16,707)	\$27.75	\$24.89
Phoenix, AZ	16,471,976	59,973,292	22.0%	27.6%	301,024	3,284,726	740,000	374,498	(72,825)	213,311	\$29.17	\$24.83
Pittsburgh, PA**	21,889,112	30,091,970	17.8%	21.8%	1,243,412	1,778,034	0	628,376	(112,214)	324,878	\$23.07	\$21.65
Portland, OR	20,900,824	21,284,432	10.5%	20.2%	889,181	1,231,175	346,440	70,020	768,245	230,738	\$25.17	\$22.88
Richmond, VA**	11,328,548	45,936,178	12.6%	10.4%	261,360	1,575,997	231,000	46,671	242,290	300,997	\$25.40	\$18.37
Roanoke, VA**	3,951,324	8,069,653	9.4%	8.7%	22,894	141,325	0	0	(63,962)	(35,530)	\$22.50	\$16.37
Rochester, NY**	6,234,178	7,173,832	20.1%	13.7%	****	****	****	****	****	****	\$21.00	\$19.25
Salt Lake City, UT**	7,174,194	24,108,551	16.4%	15.2%	556,564	1,994,026	0	318,000	351,649	(65,340)	\$28.69	\$23.01
San Antonio, TX**	5,398,502	21,850,590	29.1%	19.1%	88,348	1,499,946	0	646,897	(47,573)	492,931	\$21.07	\$24.67
San Diego, CA	11,087,949	61,523,492	16.5%	16.6%	678,564	5,485,086	0	352,606	(65,106)	591,068	\$28.68	\$30.60
San Francisco Peninsula CA	****	34,883,145	****	15.5%	****	3,769,843	****	23,011	****	243,705	****	\$31.39
San Francisco, CA	49,158,053	25,539,069	12.8%	19.7%	3,580,684	1,830,615	0	0	(363,322)	(468,674)	\$39.02	\$28.61
San Juan, PR**	6,006,667	9,774,348	10.4%	16.6%	****	****	****	****	****	****	\$20.62	\$18.35
Savannah, GA**	1,236,797	2,135,393	24.6%	21.4%	****	****	****	****	****	****	\$20.20	\$22.66
Seattle, WA**	40,844,074	8,936,879	20.8%	22.4%	3,265,361	412,647	861,554	162,866	591,401	(51,429)	\$30.50	\$21.86
Silicon Valley CA	6,956,526	37,957,340	26.4%	20.3%	547,223	4,460,213	0	852,843	(297,397)	789,286	\$35.99	\$31.00
Southern NH	****	12,511,866	****	21.0%	****	466,619	****	0	****	(87,808)	****	\$16.08
St. Louis, MO**	12,987,327	37,288,337	26.4%	14.4%	490,805	1,769,207	0	485,250	(49,324)	383,303	\$19.05	\$23.56
St. Petersburg/Clearwater FL	****	13,322,574	****	24.4%	****	797,393	****	0	****	30,394	****	\$20.10
Suburban MD	****	55,106,306	****	17.1%	****	2,699,850	****	313,130	****	443,731	****	\$31.43
SWFL (Fort Myers, FL)**	****	16,932,184	****	19.0%	****	****	****	****	****	****	****	\$14.44
SWFL (Naples, FL)**	****	8,279,382	****	20.1%	****	****	****	****	****	****	****	\$18.93
Syracuse, NY**	6,984,779	10,048,304	29.0%	16.5%	100,967	155,460	53,004	0	(254,207)	(33,851)	\$16.84	\$16.70
Tampa, FL	6,374,743	25,704,424	19.0%	18.8%	400,147	1,646,824	0	0	17,766	(40,209)	\$23.10	\$24.76
Tucson, AZ**	4,183,588	18,871,628	7.1%	13.0%	610,177	403,908	0	86,455	(19,828)	(56,378)	\$22.06	\$23.99
Tulsa, OK**	7,812,870	12,618,092	21.0%	23.3%	****	****	0	0	77,670	(17,938)	\$17.30	\$18.58
Washington, D.C.	103,954,190	****	12.6%	****	5,822,502	****	2,523,171	****	4,261,565	****	\$55.35	****
Westchester County NY	6,307,675	22,069,709	15.8%	17.5%	240,316	944,475	0	0	(137,382)	(570,952)	\$33.14	\$30.74
<b>TOTAL - ALL MARKETS</b>	<b>1,449,333,202</b>	<b>2,855,030,793</b>	<b>15.4%</b>	<b>18.7%</b>	<b>71,912,314</b>	<b>150,350,194</b>	<b>9,082,819</b>	<b>13,619,191</b>	<b>1,353,410</b>	<b>790,187</b>	<b>\$38.86</b>	<b>\$26.13</b>
<b>TOTAL - C &amp; W MARKETS</b>	<b>1,127,413,725</b>	<b>2,063,229,287</b>	<b>14.4%</b>	<b>19.4%</b>	<b>62,372,206</b>	<b>124,083,018</b>	<b>7,452,089</b>	<b>9,472,678</b>	<b>2,170,445</b>	<b>(229,832)</b>	<b>\$43.16</b>	<b>\$27.67&lt;/</b>