



COMMERCIAL REAL ESTATE OUTLOOK

December 2007

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MARKET SECTOR (Q3 to Q4)

▲	Office Vacancy
▼	Office Net Absorption
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▼	Industrial Net Absorption
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▲	Retail Vacancy
▼	Retail Net Absorption
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▲	Multi-Family Vacancy
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Solid fundamentals despite noticeably slower real estate investment activity since August...



OVERVIEW

Three trends in commercial real estate have dominated the last quarter. First, the credit crunch that is still impacting the residential sector began to influence the ability of many commercial property investors to get funding. Second, while investment activity has fallen off noticeably since August of this year, the fundamentals have remained relatively healthy. Third, both the Commercial Leading Indicator (CLI) and the SIOR Index clearly point to a general slowing in the pace of commercial real estate activity.

While the pace of investment has fallen since August/September, first and second quarter activity was brisk. By the end of October, a record \$325 billion worth of commercial real estate had traded hands nationwide, with over half involving office properties. As a comparison, \$306.8 billion worth of commercial properties traded hands in all of 2006, and \$267.6 billion was traded in 2005 – both yearly totals surpassing the \$150 billion that traded hands in 2004.

NAR FORECAST: Tighter credit conditions will most likely limit the number of investment transactions. Institutional and foreign investors can only take-up some of the slack and they tend to be primarily interested in properties valued in excess of \$5.0 million. Cap rates will slowly begin to rise as prices fall. The era of rapid price escalation may be coming to an end.

The Office Sector: Investment transactions soar to over \$174 billion despite modest up-tick in vacancy....

With jobs still being created in most regions, the demand for office space continues to be positive. The office sector is experiencing new supply, which is for the most part build-to-suit or with a significant pre-lease in place. The problem with new supply is that there is often a lag time for older vacated space to be leased-up.

NAR FORECAST: Investment grade office properties with solid income streams will be in most demand by institutional, equity funds and foreign investors. The demand for office space will be positive and new supply will be slowing somewhat. By the end of 2008 the office vacancy rate will be just over 13%, up from the current 12.9%.

The Industrial Market: Weaker dollar fuels increase in exports, but a noticeable decline in port distribution hub leasing activity ...

In recent years the US economy has been importing more than it has been exporting. While this is still true, the weakening US dollar has made US goods more attractive to foreign buyers. While port and distribution markets are still active industrial real estate centers, the vacancy rate in these markets have been edging up slowly in recent months.

Investors seeking opportunities for properties with good longer-term income stream projections rather than short term price appreciation...

COMMERCIAL LEADING INDICATOR (CLI)

COMMERCIAL REAL ESTATE INDEX LEVELS OUT IN 3RD QUARTER

WASHINGTON (November 20, 2007) –Commercial real estate market activity is expected to level out, suggesting stable business opportunities for commercial practitioners in the months ahead, according to a forward-looking index for the commercial real estate sectors published by the National Association of Realtors®.

The Commercial Leading Indicator for Brokerage Activity* slipped 0.1 percent to an index of 120.6 in the third quarter from a record reading of 120.7 in the second quarter, but remains 0.7 percent higher than the third quarter of 2006 when it stood at 119.7. The dip follows nine consecutive quarterly increases; NAR's track of the index dates back to 1990.

Lawrence Yun, NAR chief economist, said momentum in the commercial market appears to be leveling at a high plateau. "Commercial real estate has been performing quite well over the past few years and the flattening index means net absorption of space in the industrial and office sectors is likely to contract modestly or hold even over the next six to nine months," he said. "This trend is consistent with anticipated slower economic expansion in upcoming quarters."

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NAR FORECAST: With industrial obsolescence a factor in many markets, many users are considering building or renting in secondary or tertiary markets. In the first ten months of 2007 almost 16% of industrial investment transactions were in markets outside the 57 primary markets tracked in this report. With abundant development land and relatively low concerns with site remediation, these secondary and tertiary markets are poised to generate greater interest by users of industrial space.

The Retail Market: Despite falling consumer confidence, vacancy rates for retail real estate are stable...

The Conference Board's leading indicator of consumer confidence has been declining since the summer and recorded a low 87.3 in November. However, the demand for retail real estate appears likely to be on an upswing in 2008. Much of the improvement in fundamentals will be due to a declining level of new construction.

NAR FORECAST: As population growth in the Southeast jumped, so too has the level of retail investment and development activity in that region. Retail has always been highly dependent on population growth and this will continue. Western markets -- particularly those in California, Utah and Arizona -- will also likely see continued demand for retail space.

The Multi-Family Market: Hurting housing market helps the multi-family sector...

The subprime mess has resulted in an increasing number of foreclosures -- an unfortunate set of circumstances. In many instances displaced homeowners opt to rent their next form of accommodations. This is one reason the multi-family market has remained fairly stable during this period of housing crisis.

NAR FORECAST: Until such time as the recovery in the housing market kicks in and foreclosures start to decline, the multi-family sector will continue to be one of the beneficiaries of these events. Our forecast calls for the year-end vacancy rate for multi-family markets to fall to 5.1%.

CLI & SIOR INDEX: A slowing in commercial real estate activity is seen in both indexes...

Both NAR's Commercial Leading Indicator (CLI) and the SIOR Index are pointing to a slowdown in commercial real estate activity. The SIOR Index, which is compiled from anecdotal survey responses from SIOR members, points to declines in both the office and industrial markets with particular declines in both the West and South for these two sectors. The CLI also declined in the last quarter, indicating that there will likely be a slight to modest decline in real estate transaction activity.

NOVEMBER 2007 ECONOMIC FORECAST

<i>Major Indicators</i>	<i>2007 II</i>	<i>2007 III</i>	<i>2007 IV</i>	<i>2008 I</i>	<i>2008 II</i>	<i>2008 III</i>	<i>2008 IV</i>	<i>2009 I</i>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Real GDP Annual Percentage Growth Rate	3.8	3.9	1.4	2.5	3.1	3.3	2.9	2.7	2.9	2.1	2.8
Non-Farm Employment Annual Percentage Growth Rate	1.2	0.9	1.2	1.0	1.1	1.1	1.6	1.4	1.9	1.3	1.1
Consumer Prices Annual Percentage Growth Rate	6.0	1.9	4.0	2.3	2.5	2.0	1.9	2.4	3.2	2.8	2.8
Real Disposable Income Annual Percentage Growth Rate	0.6	4.4	1.6	1.8	2.5	3.3	3.1	4.2	3.1	3.5	2.4
Consumer Confidence Index	107	106	100	101	102	106	107	107	106	106	104
Unemployment Percent	4.5	4.7	4.8	4.9	4.9	4.8	4.8	4.8	4.6	4.6	4.9
<i>Interest Rates (%)</i>	<i>2007 II</i>	<i>2007 III</i>	<i>2007 IV</i>	<i>2008 I</i>	<i>2008 II</i>	<i>2008 III</i>	<i>2008 IV</i>	<i>2009 I</i>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Fed Funds Rate	5.3	5.1	4.6	4.5	4.5	4.5	4.5	4.5	5.0	5.0	5.1
3-Month T-Bill Rate	4.7	4.3	3.9	4.0	4.0	4.1	4.1	4.3	4.7	4.5	4.1
Prime Rate	8.3	8.1	7.6	7.5	7.5	7.5	7.5	7.5	8.0	8.0	7.5
Corporate Aaa Bond Yield	5.6	5.8	5.5	5.7	5.7	5.8	5.9	6.0	5.6	5.6	5.8
10-Year Gov't Bond	4.8	4.7	4.4	4.5	4.6	4.6	4.8	4.9	4.8	4.7	4.6
30-Year Gov't Bond	5.0	4.9	4.6	4.7	4.8	4.8	5.0	5.1	4.9	4.8	4.8

Source: NAR

COMMERCIAL FORECAST - DECEMBER 2007

<i>OFFICE</i>	<i>2007 I</i>	<i>2007 II</i>	<i>2007 III</i>	<i>2007 IV</i>	<i>2008 I</i>	<i>2008 II</i>	<i>2008 III</i>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Vacancy Rate	12.7%	12.4%	12.5%	12.9%	13.1%	13.2%	13.2%	12.6%	12.9%	13.2%
Net Absorption ('000 sq. ft.)	5,726	21,189	15,227	13,261	10,936	9,516	10,802	81,183	55,403	42,975
Office Employment (thousands)	16,792	16,884	16,968	16,996	17,040	17,089	17,143	16,707	16,996	17,207
Completions ('000 sq. ft.)	9,993	14,653	17,225	30,013	20,090	17,219	11,452	51,606	71,884	61,707
Inventory (millions sq. ft.)	3,336	3,351	3,368	3,398	3,418	3,435	3,447	3,326	3,398	3,460
Rent Growth	4.3%	0.3%	1.7%	1.7%	1.1%	0.5%	0.2%	5.2%	8.0%	2.0%
<i>INDUSTRIAL</i>	<i>2007 I</i>	<i>2007 II</i>	<i>2007 III</i>	<i>2007 IV</i>	<i>2008 I</i>	<i>2008 II</i>	<i>2008 III</i>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Vacancy Rate	9.3%	9.3%	9.2%	9.4%	9.6%	9.5%	9.5%	9.4%	9.4%	9.5%
Net Absorption ('000 sq. ft.)	34,840	35,589	29,376	27,619	34,601	35,475	36,474	205,365	127,424	143,975
Industrial Employment (thousands)	10,244	10,264	10,274	10,281	10,283	10,285	10,286	10,235	10,281	10,288
Completions ('000 sq. ft.)	21,406	36,766	28,660	53,990	62,653	35,743	34,352	173,979	140,822	171,240
Inventory (millions sq. ft.)	12,255	12,291	12,320	12,374	12,437	12,473	12,507	12,233	12,374	12,545
Rent Growth	0.9%	1.2%	0.8%	1.0%	1.0%	0.8%	0.8%	1.4%	3.3%	1.3%
<i>RETAIL</i>	<i>2007 I</i>	<i>2007 II</i>	<i>2007 III</i>	<i>2007 IV</i>	<i>2008 I</i>	<i>2008 II</i>	<i>2008 III</i>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Vacancy Rate	8.3%	8.7%	8.6%	8.9%	8.8%	8.6%	8.6%	8.0%	8.9%	8.6%
Net Absorption ('000 sq. ft.)	3,097	(681)	9,788	6,390	6,735	6,362	5,863	10,526	18,594	24,744
Completions ('000 sq. ft.)	8,581	7,512	8,153	11,880	5,547	3,693	5,329	28,262	36,126	20,750
Inventory (millions sq. ft.)	1,559	1,566	1,574	1,586	1,592	1,596	1,601	1,550	1,586	1,607
Rent Growth	1.8%	0.1%	(0.3%)	0.6%	0.5%	0.5%	0.5%	3.9%	2.2%	1.9%

Source: NAR/TWR

COMMERCIAL FORECAST – DECEMBER 2007

<i>MULTI-FAMILY</i>	<i>2007 I</i>	<i>2007 II</i>	<i>2007 III</i>	<i>2007 IV</i>	<i>2008 I</i>	<i>2008 II</i>	<i>2008 III</i>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Vacancy Rate	5.7%	5.7%	5.1%	5.4%	5.3%	5.1%	4.8%	5.9%	5.4%	5.1%
Net Absorption (Units)	70,705	41,348	111,734	10,612	71,751	82,375	91,707	229,452	234,399	245,786
Completions (Units)	57,798	58,384	57,436	57,314	56,275	54,573	53,999	224,170	230,932	216,880
Inventory (Units in Millions)	13.8	13.9	14.0	14.0	14.1	14.1	14.2	13.8	14.0	14.2
Rent Growth	0.7%	0.7%	0.8%	0.9%	1.0%	1.3%	1.4%	4.1%	3.1%	3.8%

Source: NAR/TWR

COMMERCIAL LEADING INDICATOR (CLI) (continued from Page 2)

There should be no measurable change in net absorption in the office and industrial sectors in the first quarter of 2008, and no measurable change in newly completed commercial construction activity. The level of the commercial leading indicator also implies that commercial real estate practitioners could expect leasing and sales activity in the first quarter of next year to be about 0.7 percent higher than in the first quarter of 2007.

The commercial leading indicator is a tool to assess market behavior in the major commercial real estate sectors. The index incorporates 13 variables that reflect future commercial real estate activity, weighted appropriately to produce a single indicator of future market performance, and is designed to provide early signals of turning points between expansions and slowdowns in commercial real estate.

The 13 series in the index are industrial production, the NAREIT (National Association of Real Estate Investment Trust) price index, NCREIF (National Council of Real Estate Investment Fiduciaries) total return, personal income minus transfer payments, jobs in financial activities, jobs in professional business service, jobs in temporary help, jobs in retail trade, jobs in wholesale trade, initial claims for unemployment insurance, manufacturers' durable goods shipment, wholesale merchant sales, and retail sales and food service.