A Healthy Today, An Uncertain Tomorrow…

Presented For:

BOMA: Regional Owners Group and National Advisory Council

Presented By:

Arthur Jones, Senior Economist

January 26, 2008

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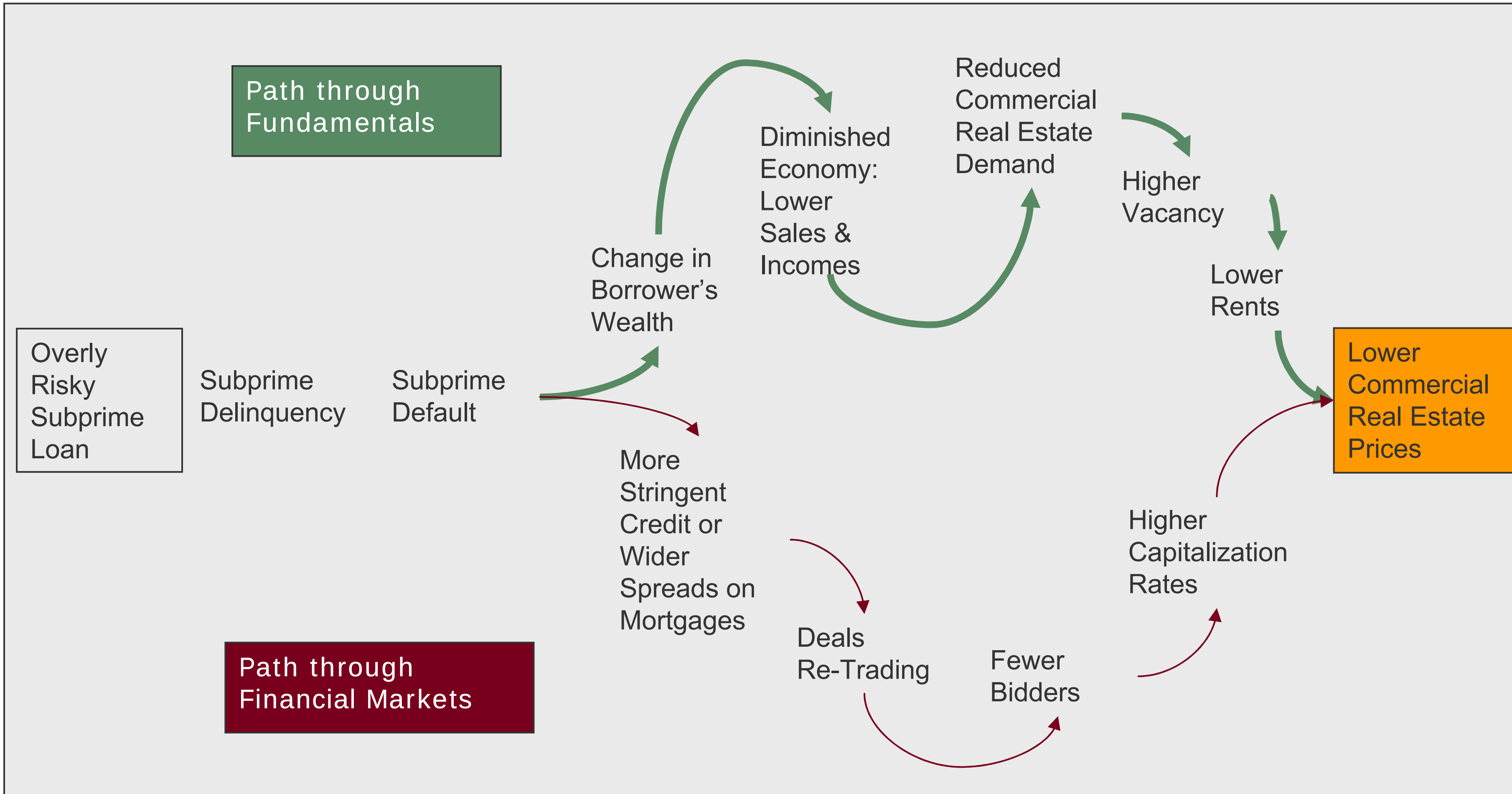
Spillover from the Sub-Prime Market can Impact Commercial Property



What is Different This Time?

- Historically, FED fights inflation by raising rates, causing housing to go into the tank from combination of tight credit and job losses, often times leading to a recession.
- In 2008, the question is whether a single family housing correction due to overbuilding will cause a recession!

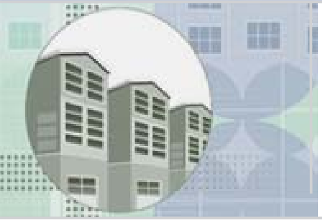
Here is a case where it is true!!

"This time is different."

Economic Outlook

A Very Uncertain 2008

- Economic Outlook is in doubt
- Some feel we are heading into a recession
- Other's feel we are already there
- Base forecast is for slow! Housing is the undertow.
- Financial Institutions and some households are the victims!
- Money is made the old fashion way—leasing, expense control and rent growth--NOI.
- Prices are still high, lower returns on New Investments. Cap rates will rise moderately!
- Financial crisis will/is repricing risk and shifting debt/equity macro allocations for real estate.



A View From the Fed

- **On the Economy**

  “weakening of economic outlook and increasing downside risks to growth”

- **On the Labor Market and housing**

  “...incoming information indicates a deepening of the housing contraction as well as some softening in the labor markets.”

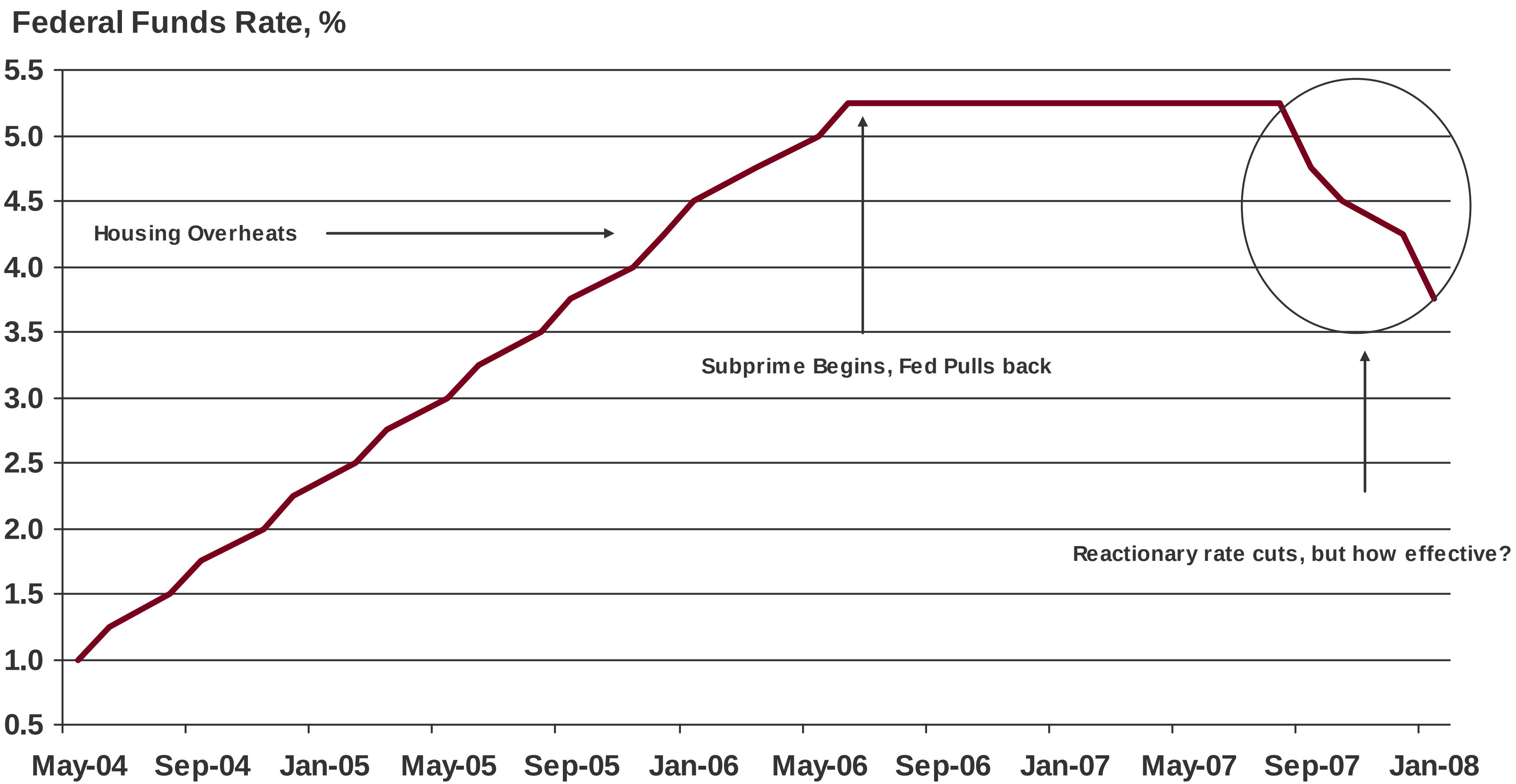
- **On Capital Markets**

  “While strains in short-term funding have eased somewhat, broader financial market conditions have continued to deteriorate...”

- **On Inflation**

  “...expects inflation to moderate, but will be necessary to continue to monitor inflation developments carefully.”

The Message is Clear The Fed is Concerned



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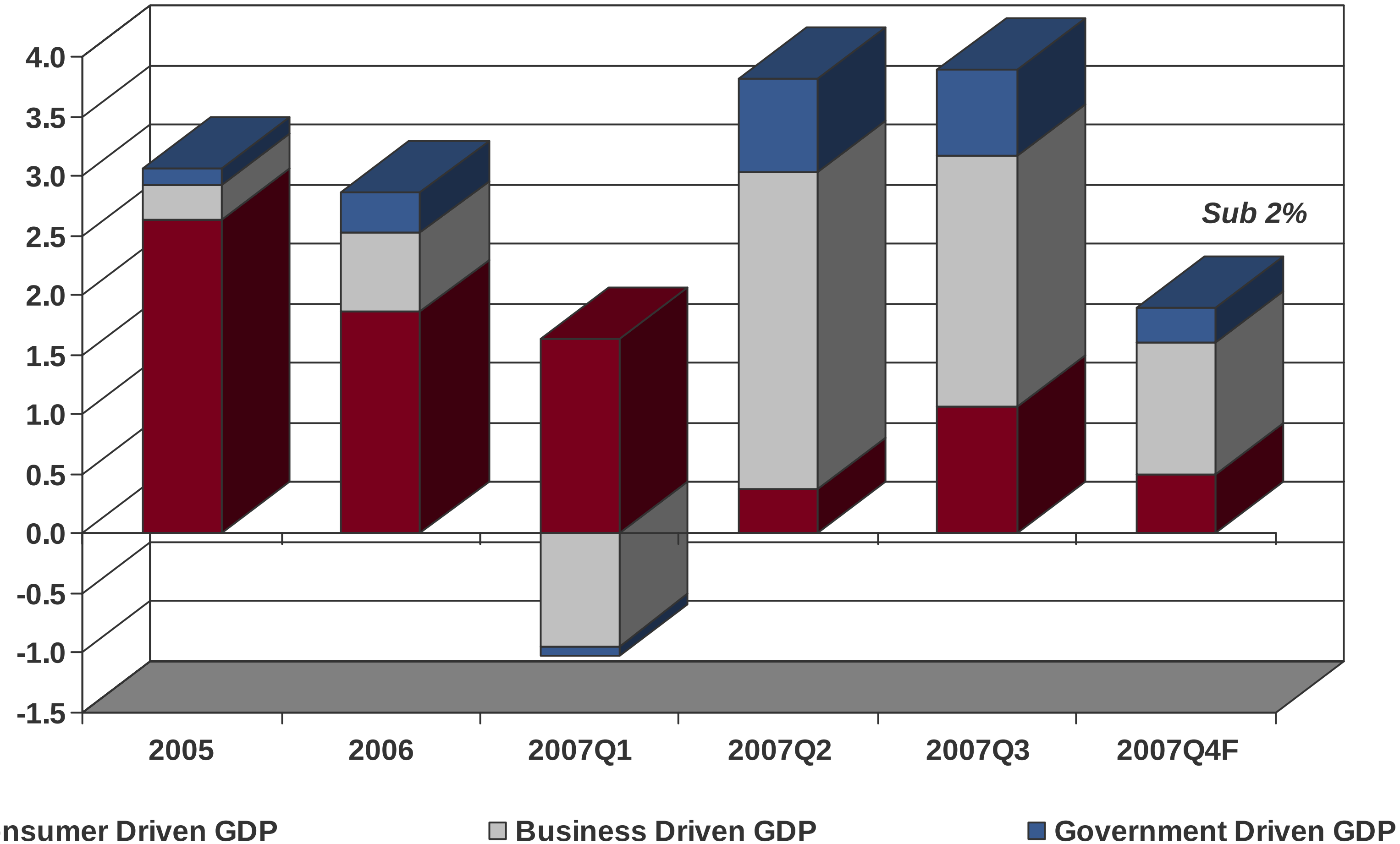
Business-Driven Economy is Slowing



Source: BEA and Torto Wheaton Research

GDP At A Glance…

Annualized % change, Chained $, SA	07Q3	07Q2	07Q1
Gross domestic product	3.9	3.8	0.6
Personal consumption expenditures	3.0	1.4	3.7
Gross private domestic investment	0.8	4.6	-8.2
Fixed investment	-1.5	3.2	-4.4
Nonresidential investment	7.9	11.0	2.1
Structures investment	12.3	26.2	6.4
Residential investment	-20.1	-11.8	-16.3
Exports	16.2	7.5	1.1
Imports	5.2	-2.7	3.9
Government consumption and invest	3.7	4.1	-0.5
Disposable personal income	4.4	0.6	5.4
Implicit Price Deflator	0.7	2.6	4.2

Source: Bureau of Economic Analysis

So What Has Us Worried?

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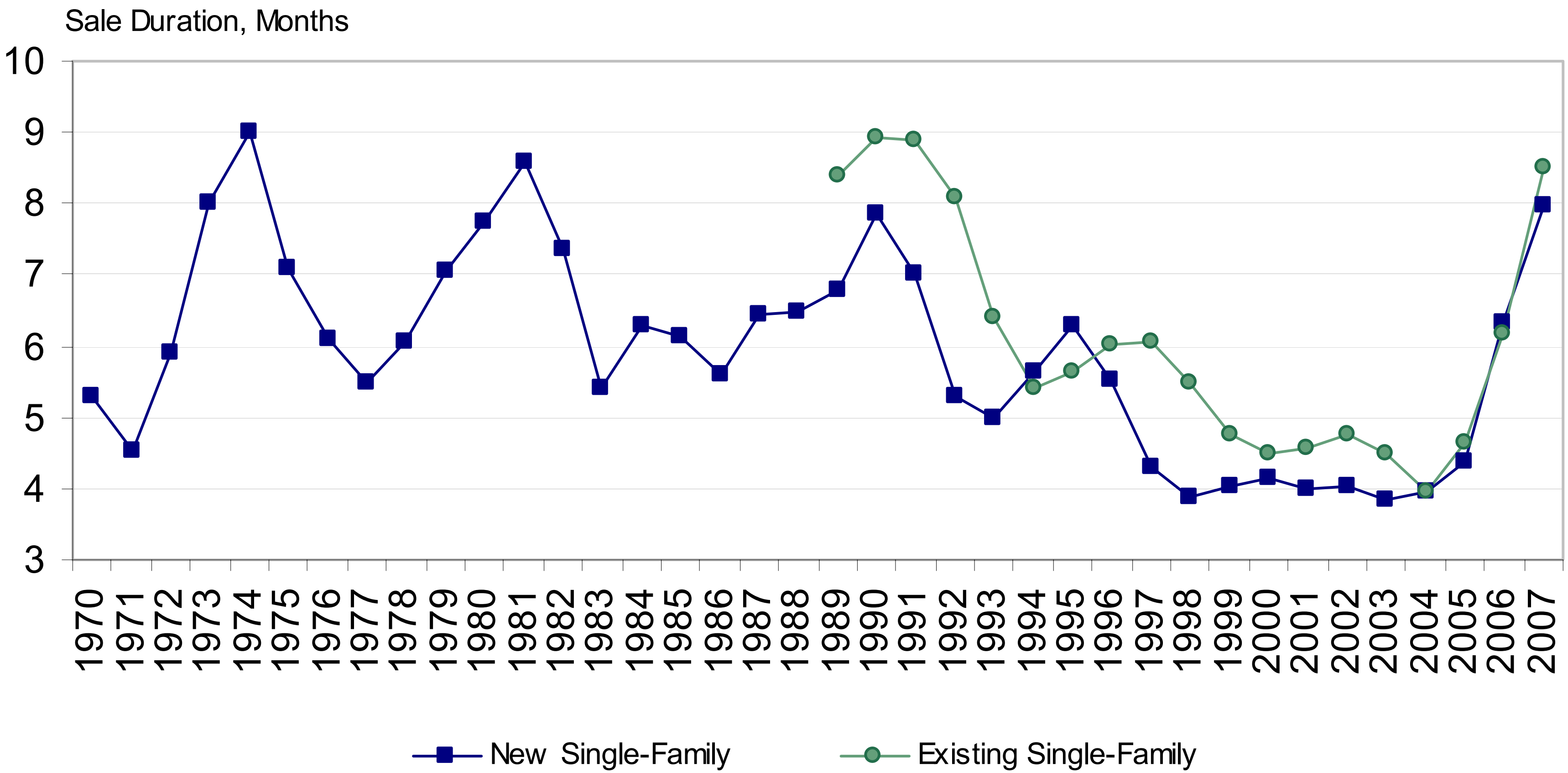
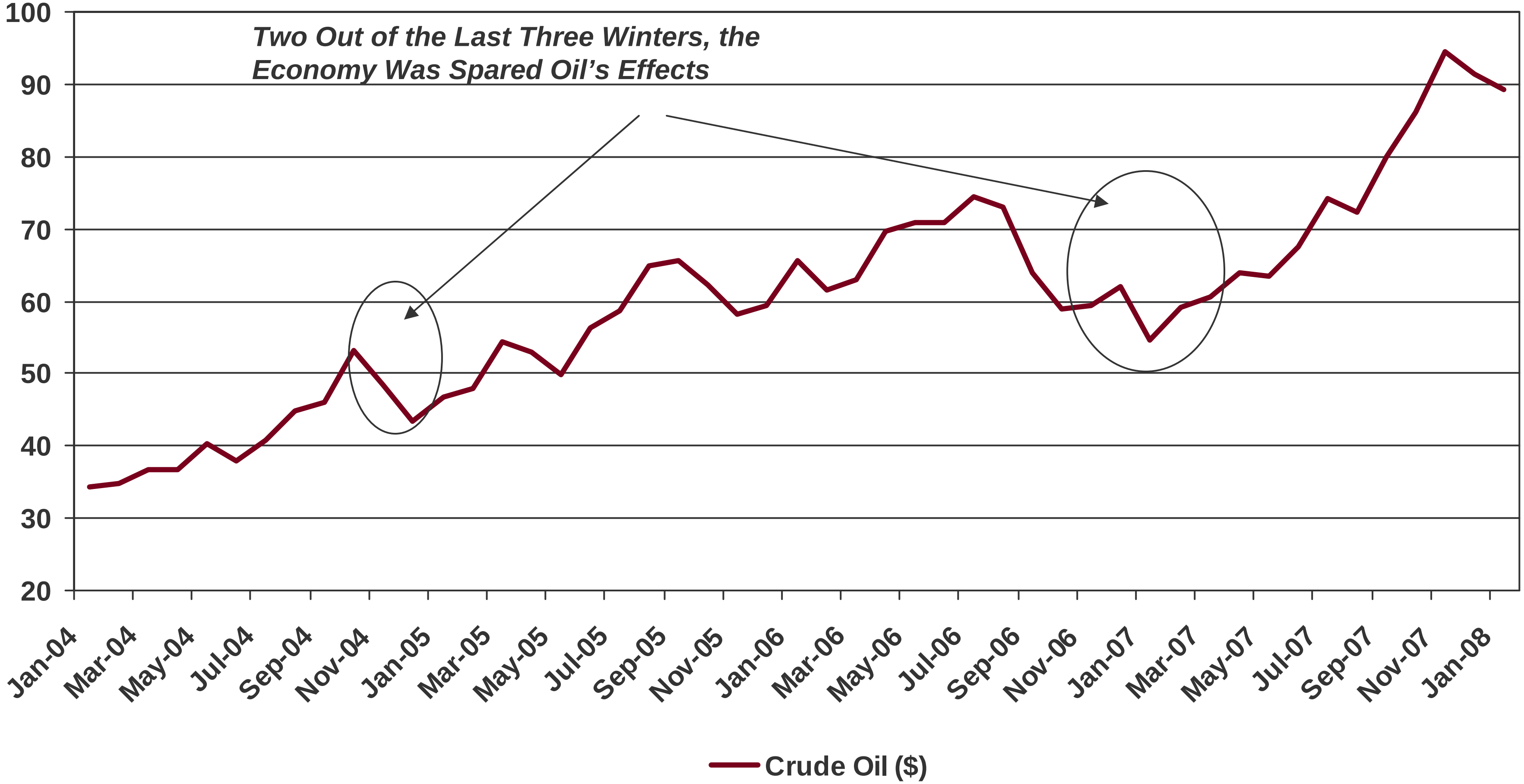
The Months Needed to Sell a Home Approaching All-Time Highs



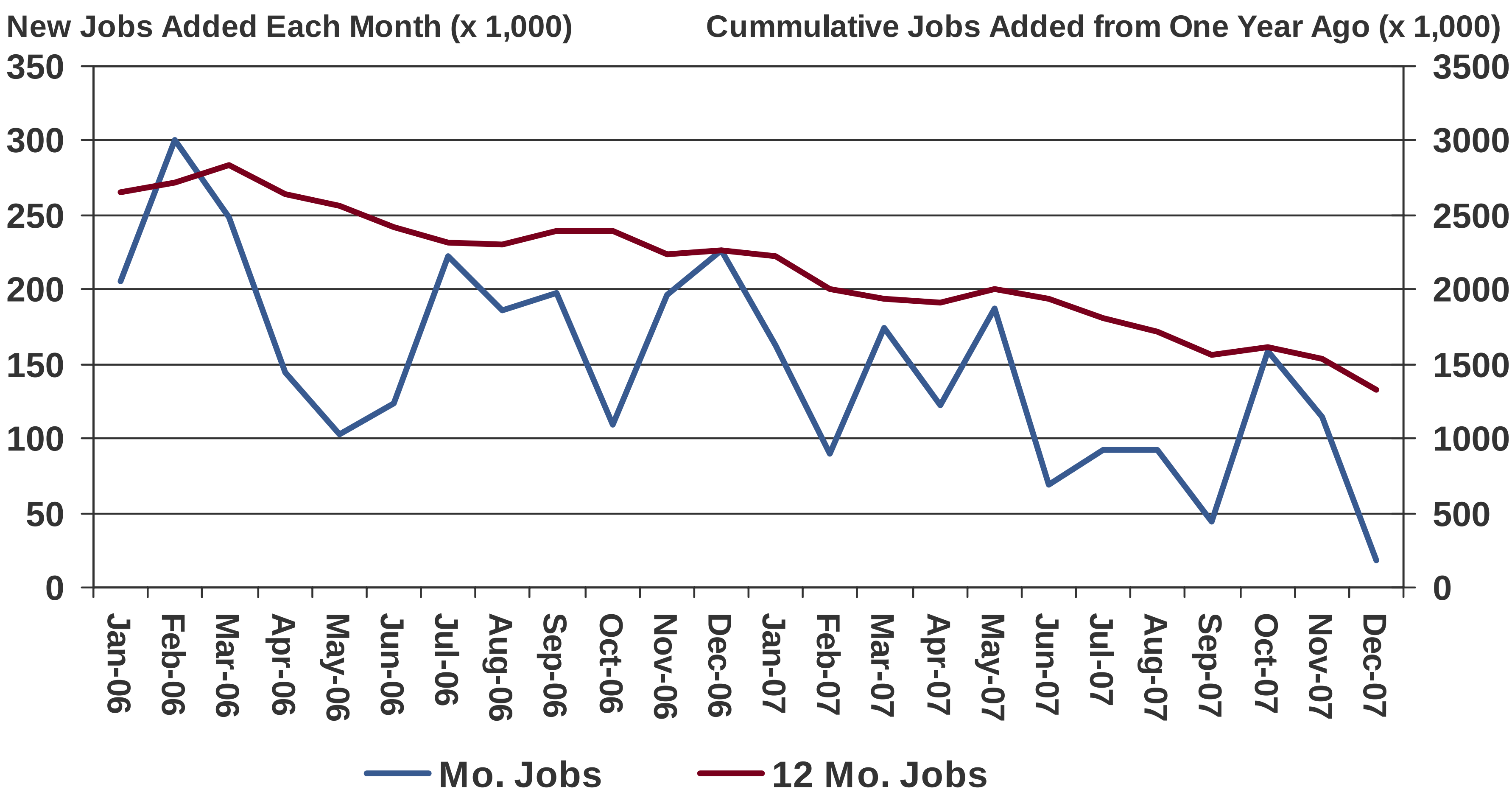
Source: National Association of Realtors.

Oil Keeps Returning As a Worry



Source: Wall Street Journal and New York Mercantile Exchange.

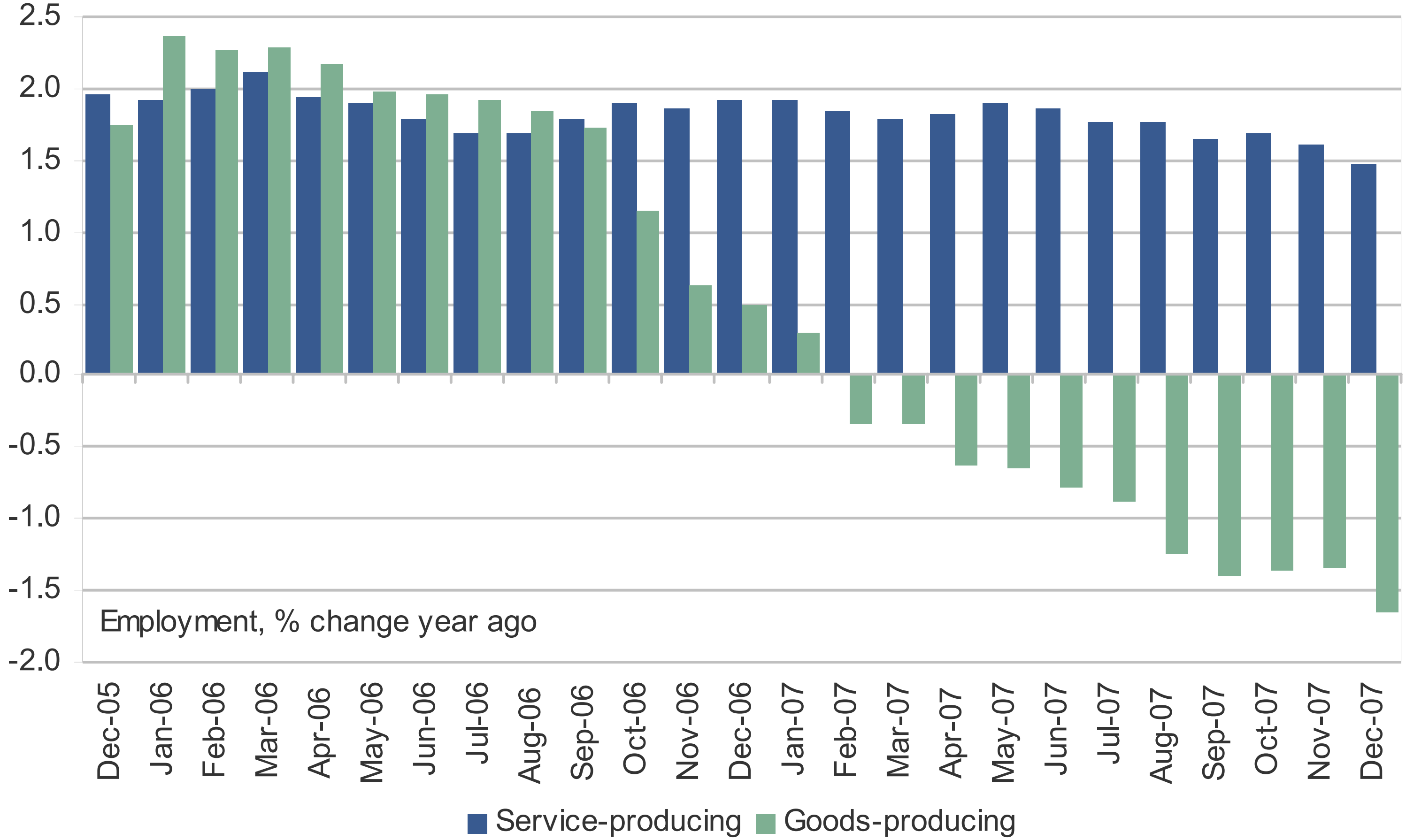
The Trend is Obvious and the December Number Raises Concern



Source: Bureau of Labor Statistics

Where Are We Headed?

Fractionalized Job Market



Source: Torto Wheaton Research, Bureau of Labor Statistics

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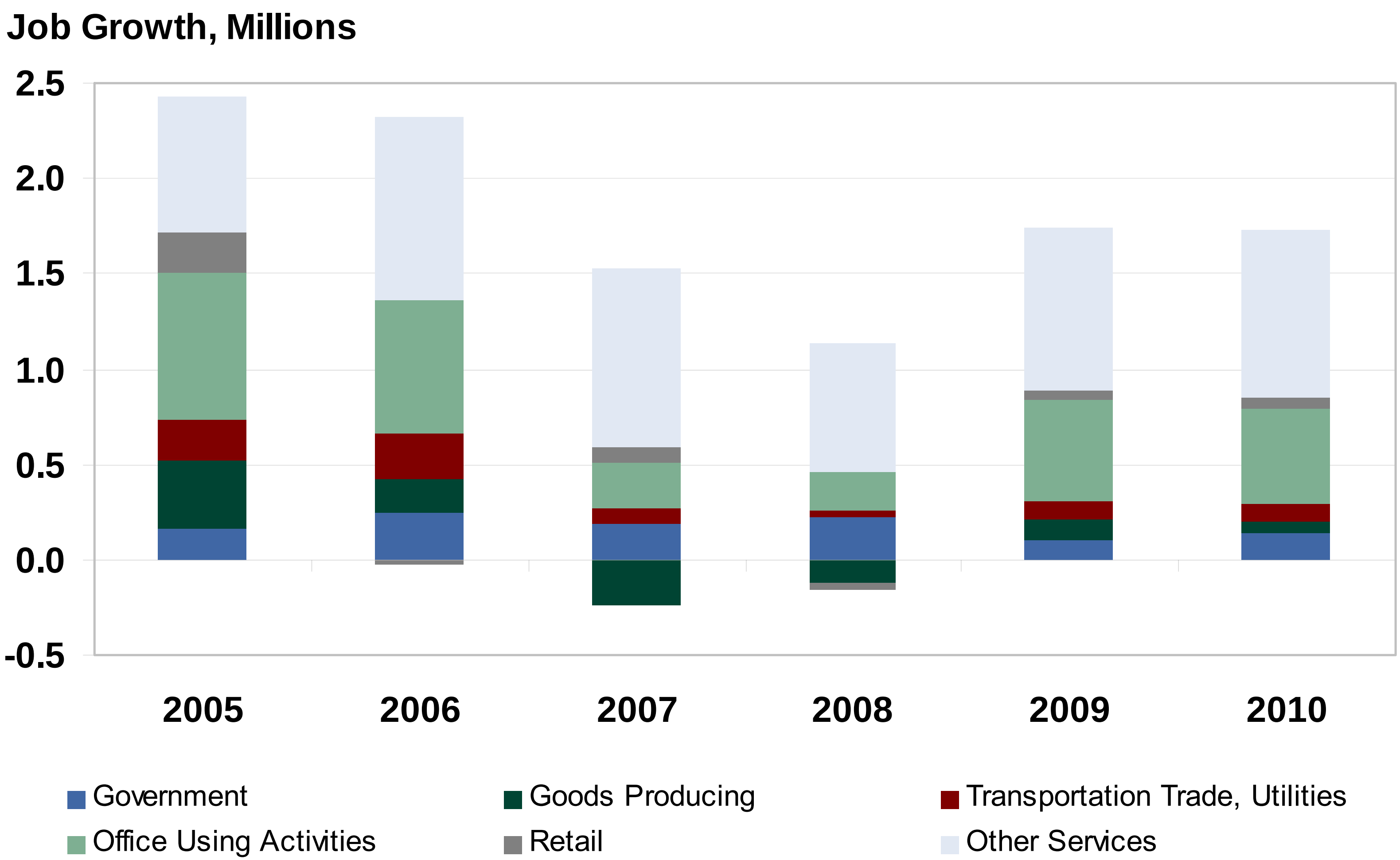
What Will Drive Job Growth? Services Of Course…



Source: Torto Wheaton Research

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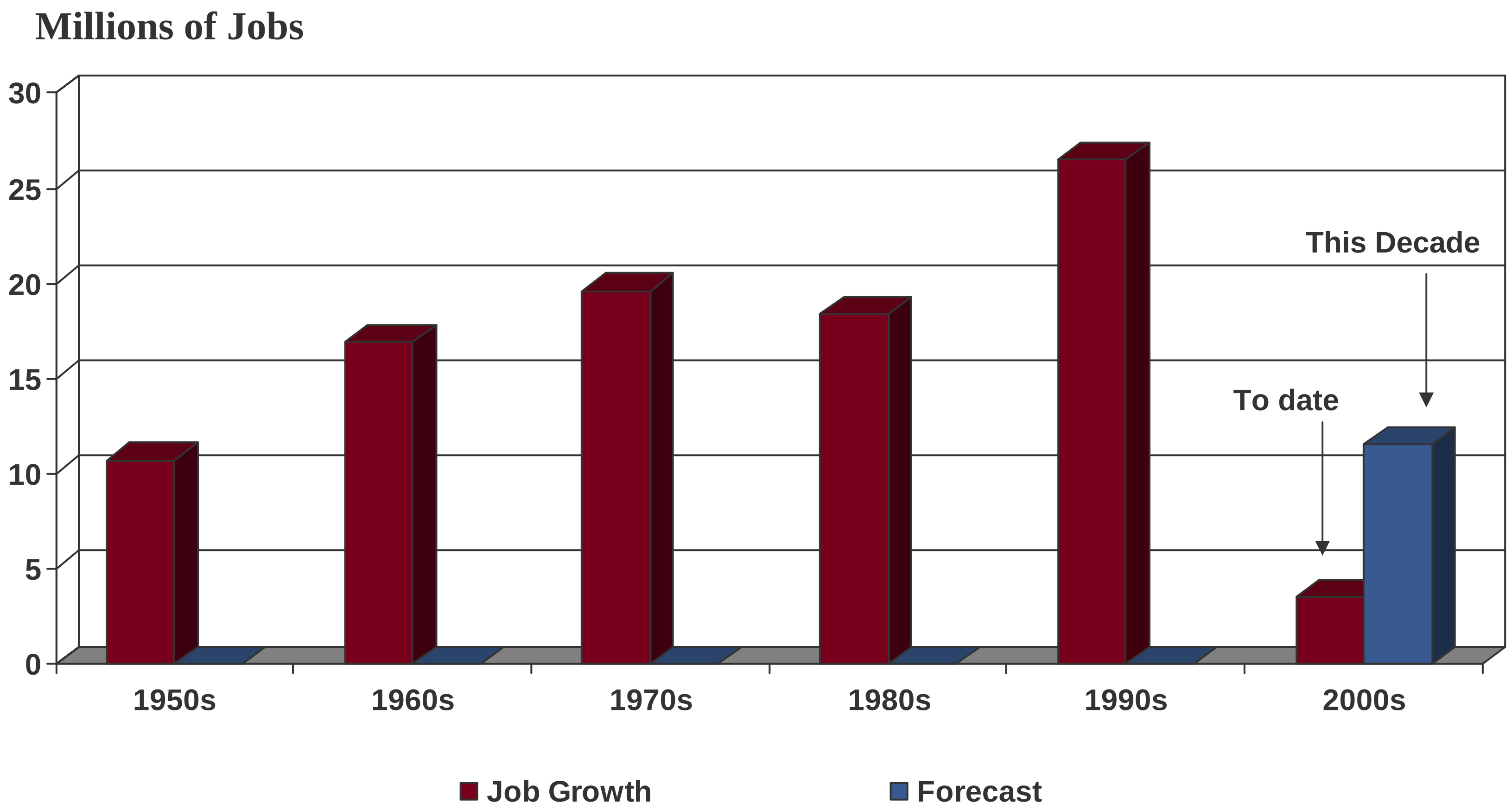
A Long Term Consideration: Job Growth This Decade Will Be Small by Historic Standards



Forecast assumes 5% unemployment

Source: Torto Wheaton Research

State of The Office Market Outlook

We had a year of Relative Stability? We are faced with a year of uncertainty… fortunately, we are well positioned.

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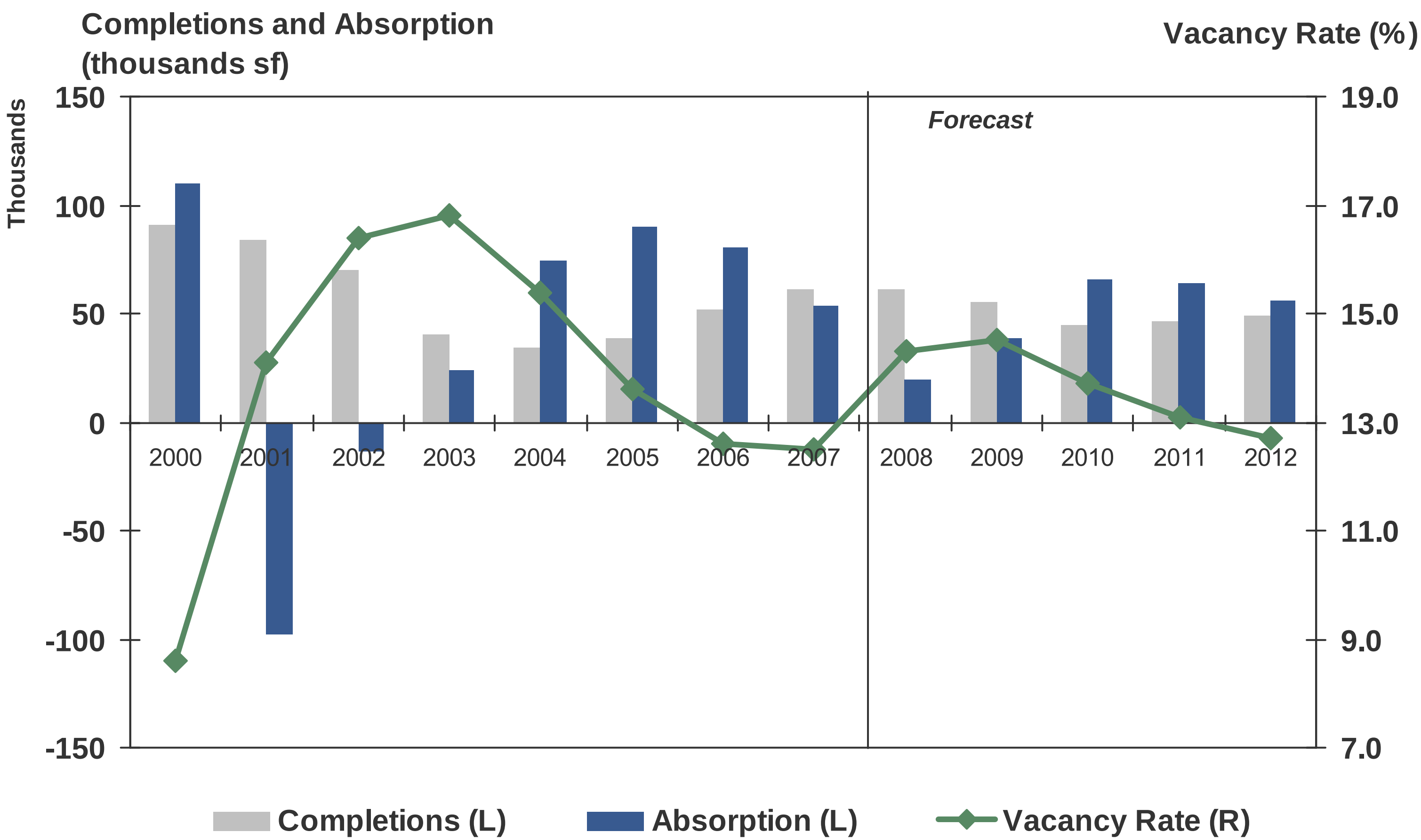
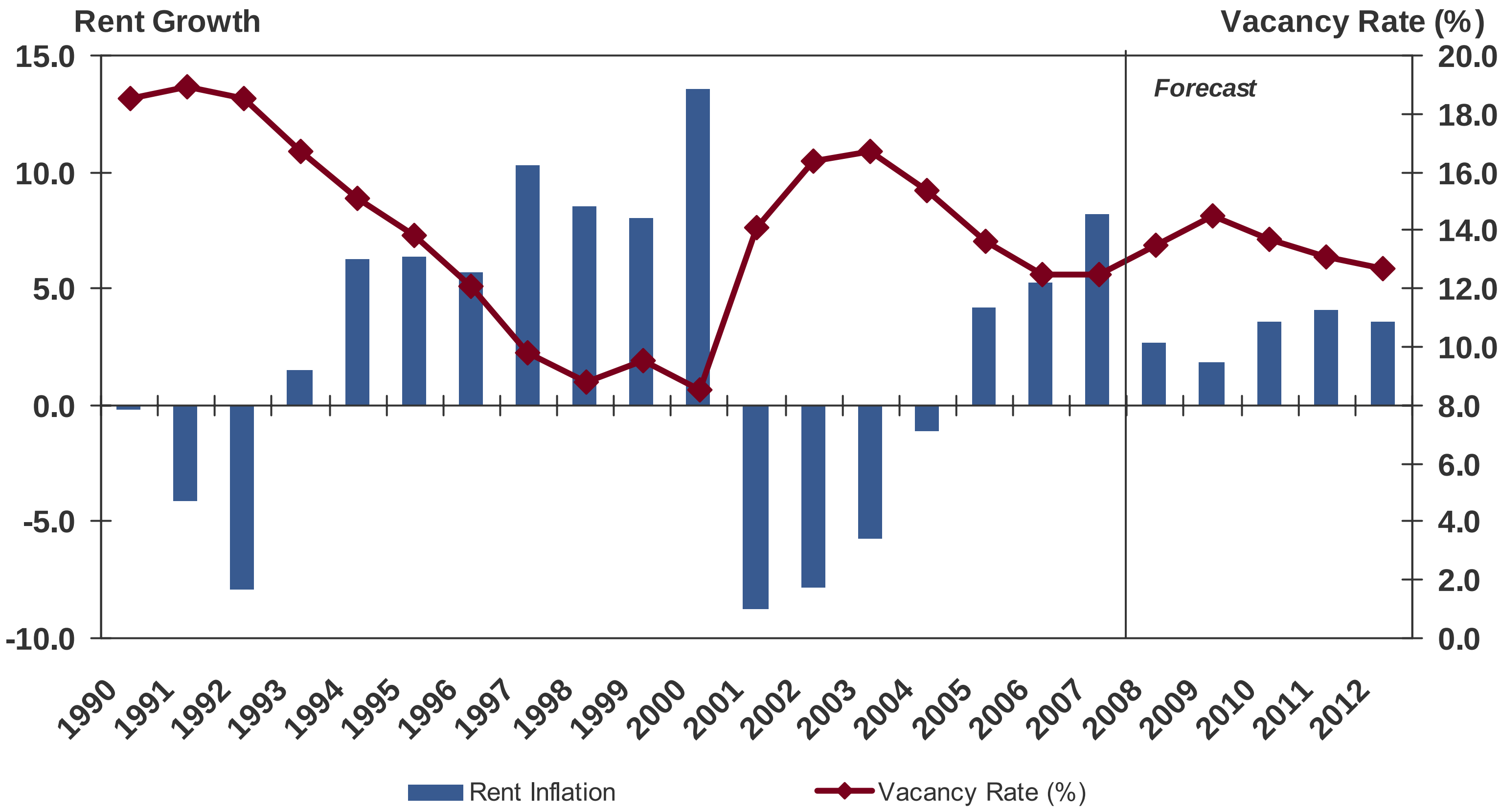
Office Outlook: Slow But Steady



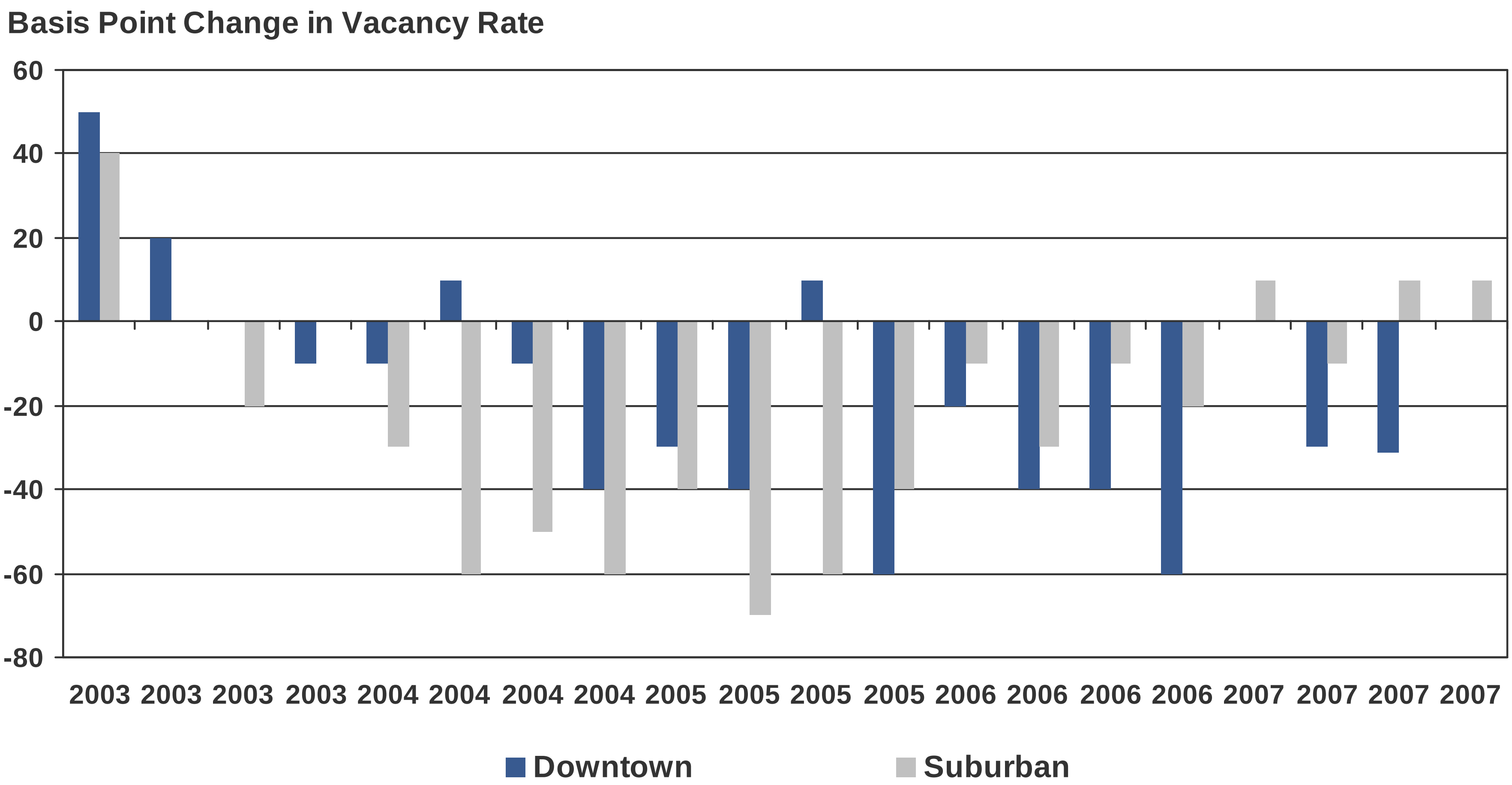
Source: Torto Wheaton Research, Outlook XL, Winter 2008

Rent Spikes Mean Vacancy Will Rise, But Not By Much



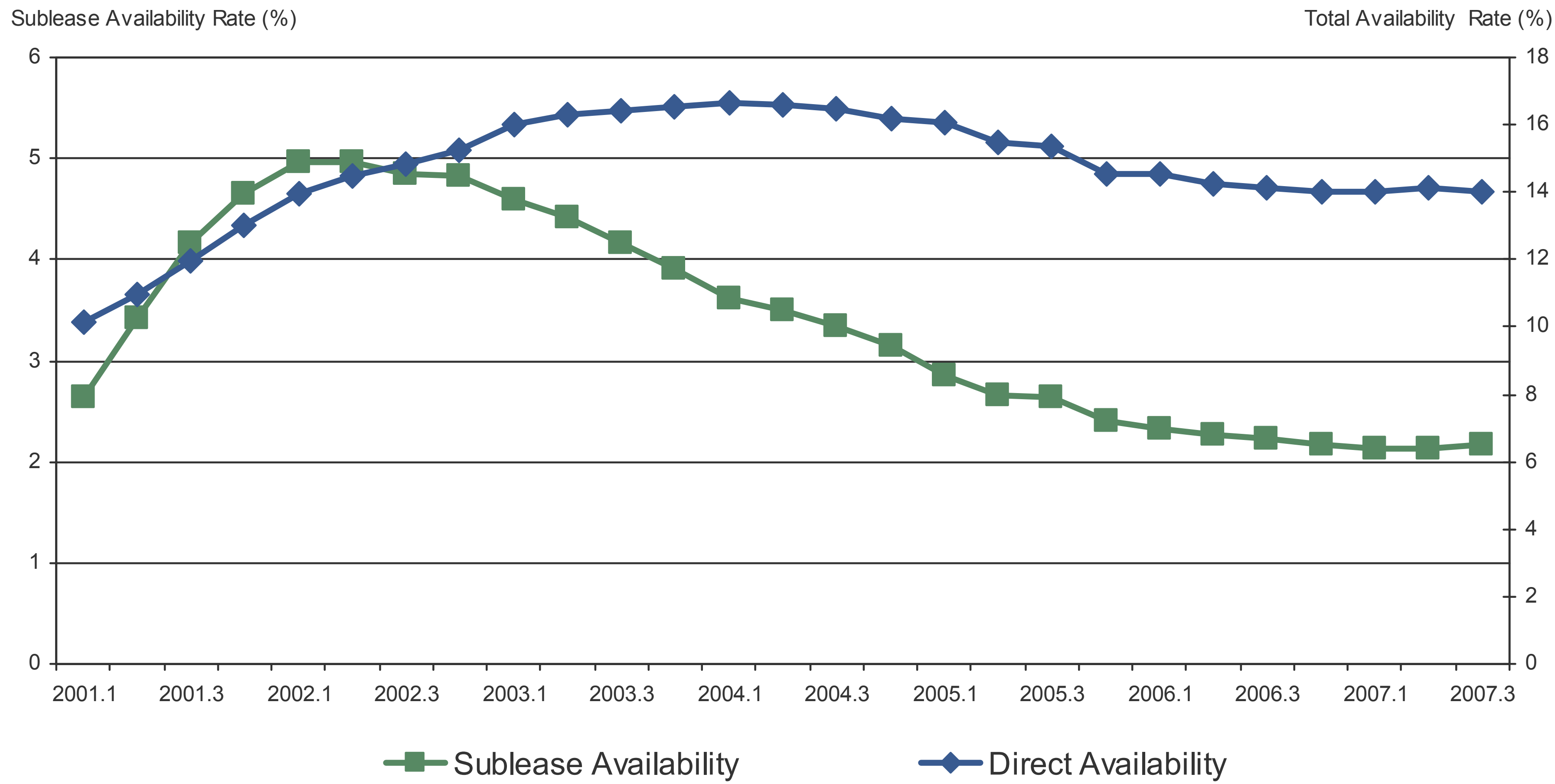
Source: Torto Wheaton Research, Office Outlook XL, Winter 2008

Downtown and Suburban Markets Separate



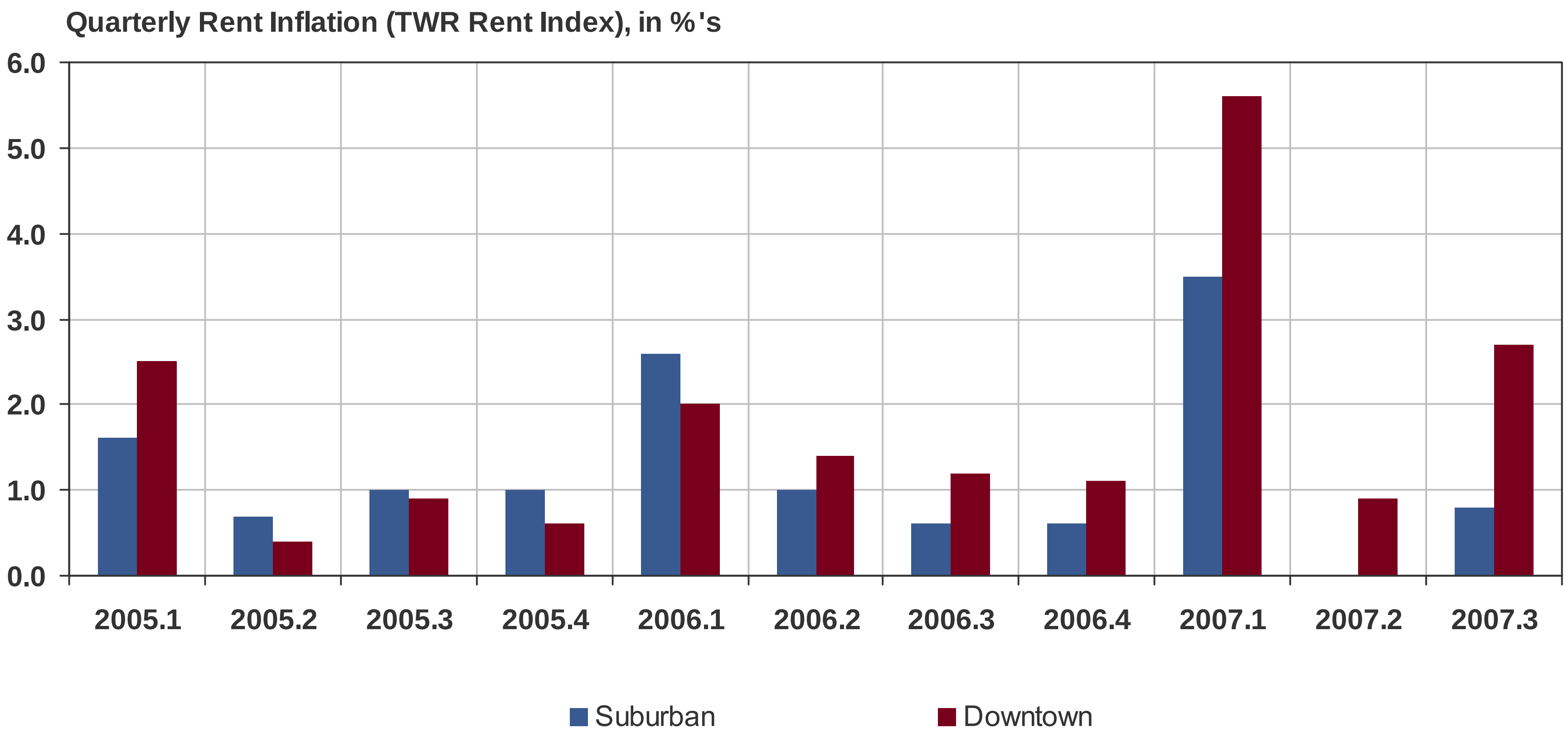
Source: Torto Wheaton Outlook XL Historical, Spring 2008

Sublet Space: Not Issue, Yet!



Sources: CoStar Group, Torto Wheaton Research

Downtown Markets Have the Edge



Source: TWR Office Outlook, Winter 2008.

Top Performing Office Markets Based on 2-Year Historical Rent Growth

Rank	Market	Current (SF x 1000)	Absorption %	Vacancy %	Rent Growth
1	San Jose	36,156	2.1	15.7	15.3
2	San Francisco	83,876	2.9	14.4	14.4
3	Miami	39,371	1.9	10.3	10.1
4	Austin	32,700	4.9	18.6	9.0
5	Los Angeles	173,369	1.9	12.2	9.0
6	Phoenix	67,370	5.8	13.7	9.0
7	Fort Worth	24,130	2.2	13.7	8.8
8	New York	428,973	1.9	8.3	8.7
9	Orange County	64,886	-0.1	7.2	8.5
10	Houston	137,963	4.6	17.9	8.1
11	Seattle	77,240	3.6	12.9	7.6
12	West Palm Beach	23,552	-0.5	9.2	7.3
13	Boston	155,920	3.0	15.1	7.0
14	Oakland	50,079	0.0	14.2	7.0
15	Washington, DC	267,535	2.2	9.4	7.0

Source: Torto Wheaton Research, Office Outlook XL, Winter 2008

A Brief Look At Industrial

A Solid Year: Who Ever Said That A Weak Dollar Was Bad?

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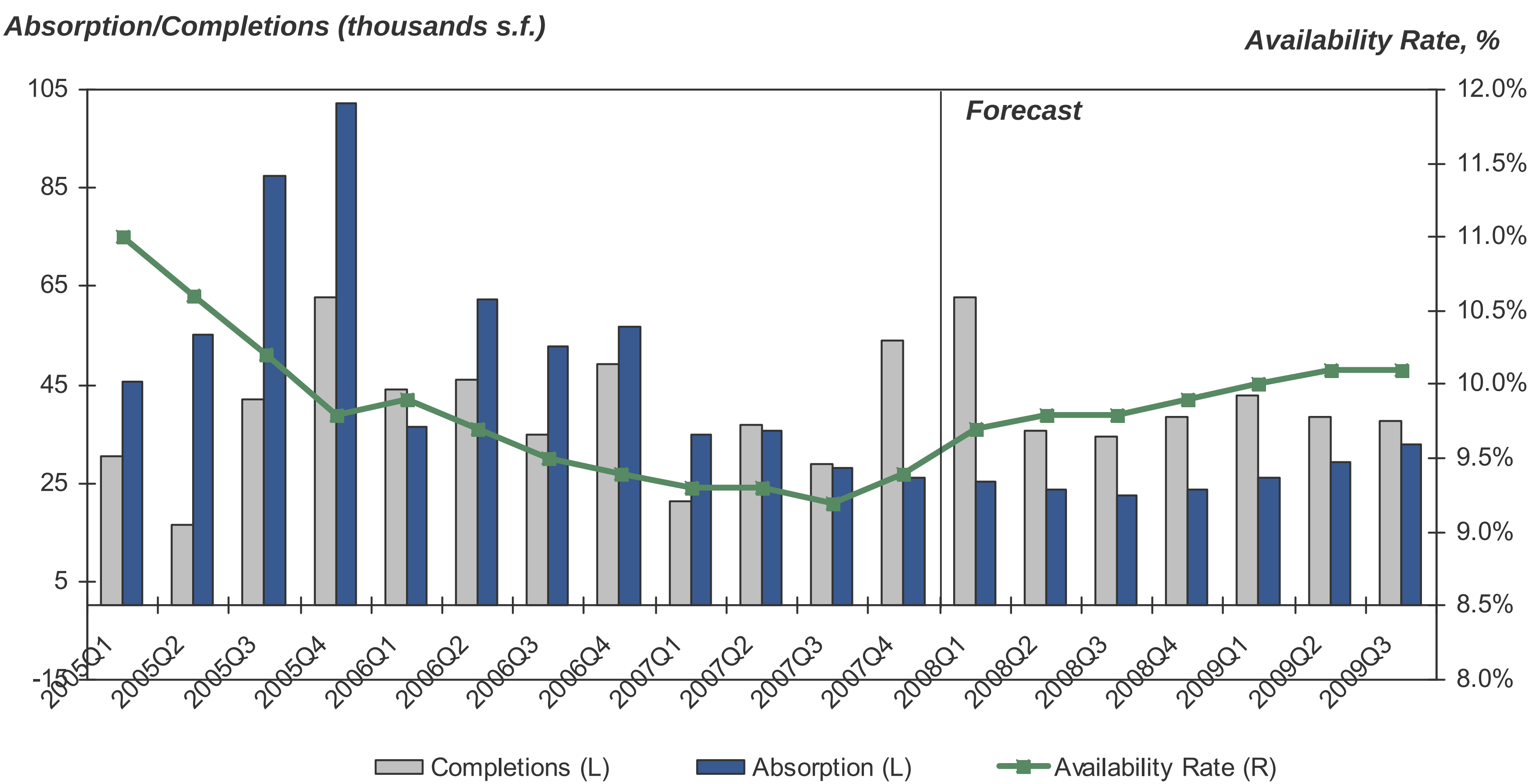
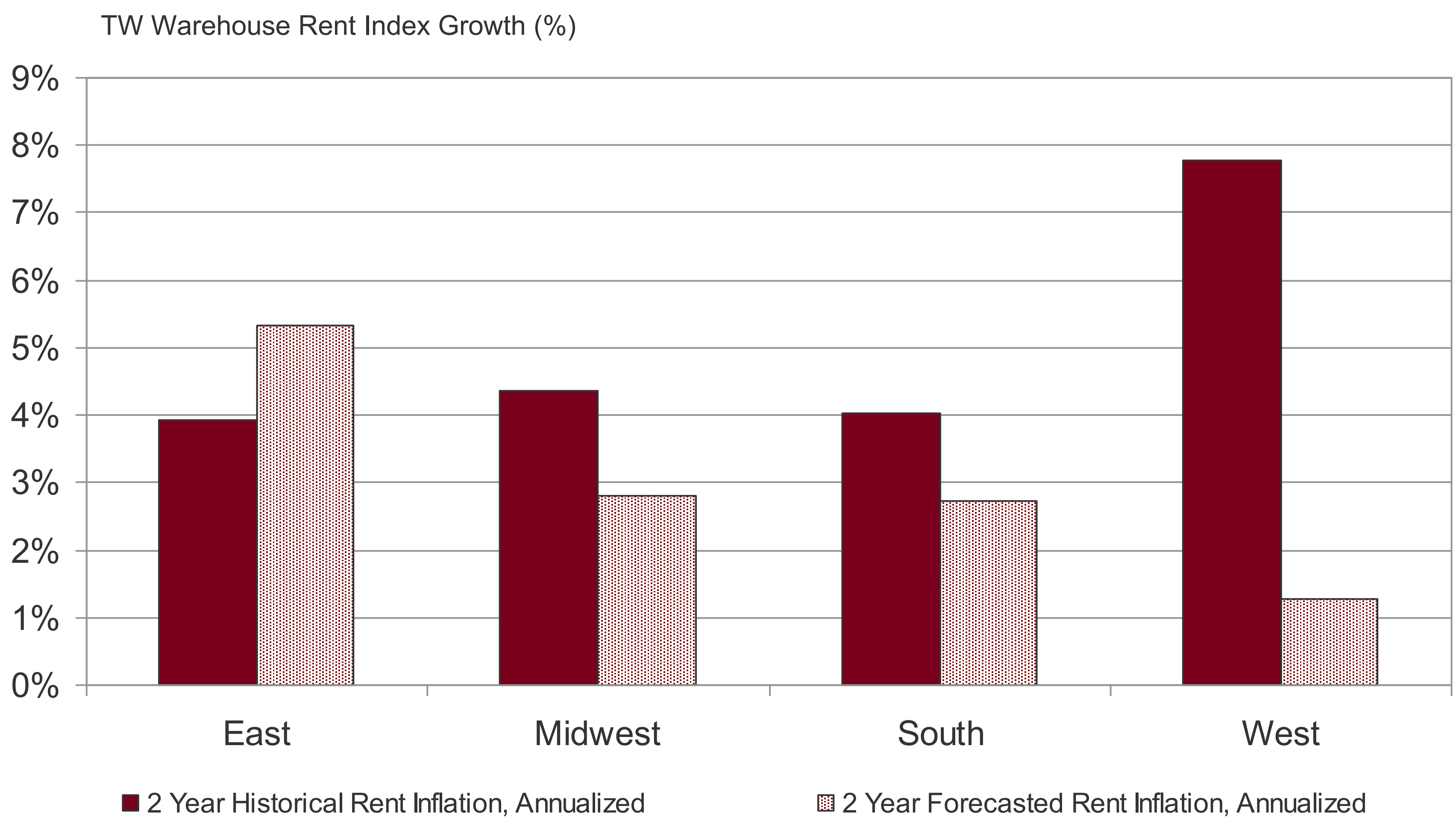
State of the Industrial Market



Source: Torto Wheaton Research, Outlook XL Winter 2008

What's Up (or Down) with Regional Distribution Markets?



Source: TWR Industrial Outlook XL, Winter 2008

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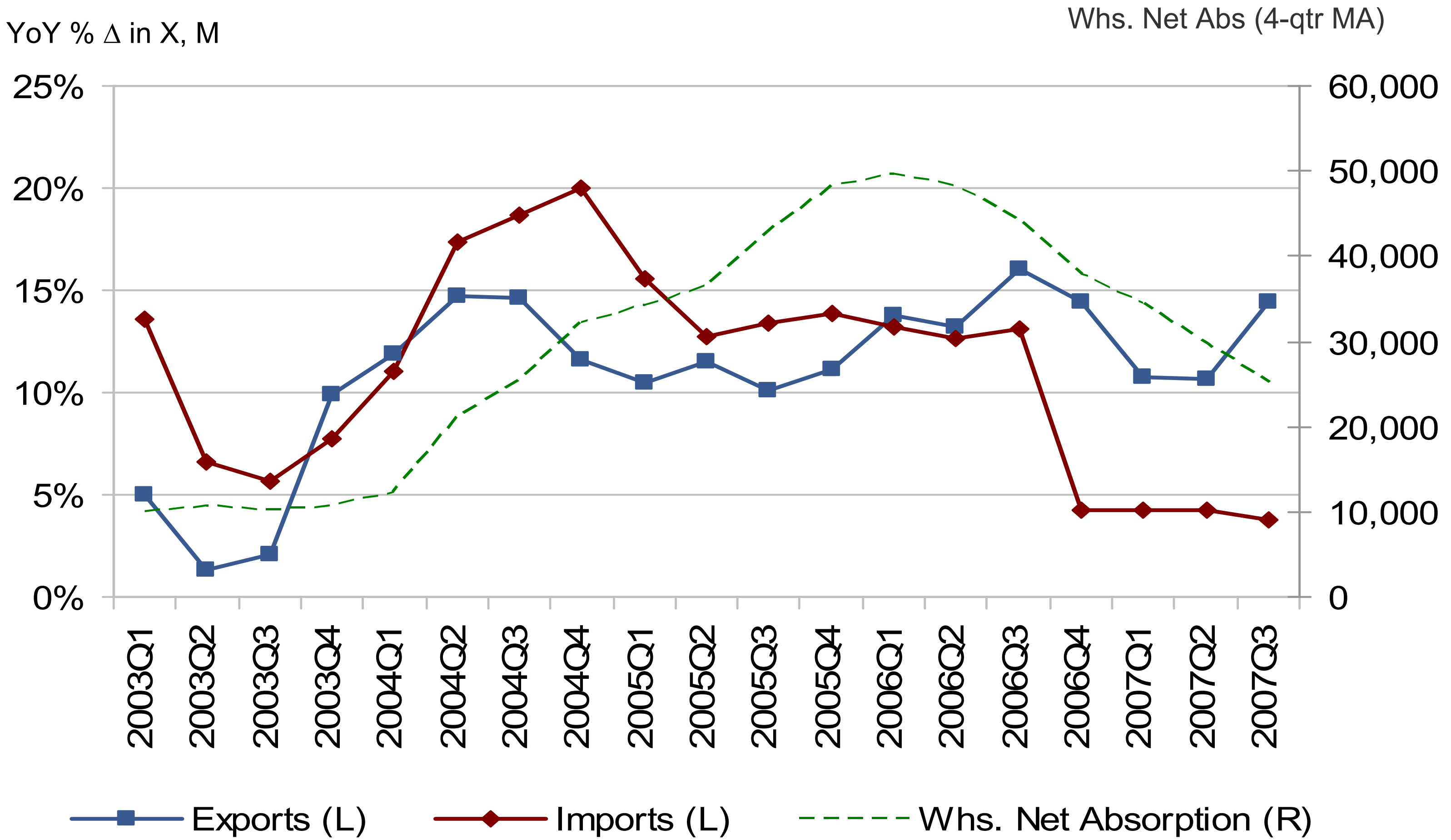
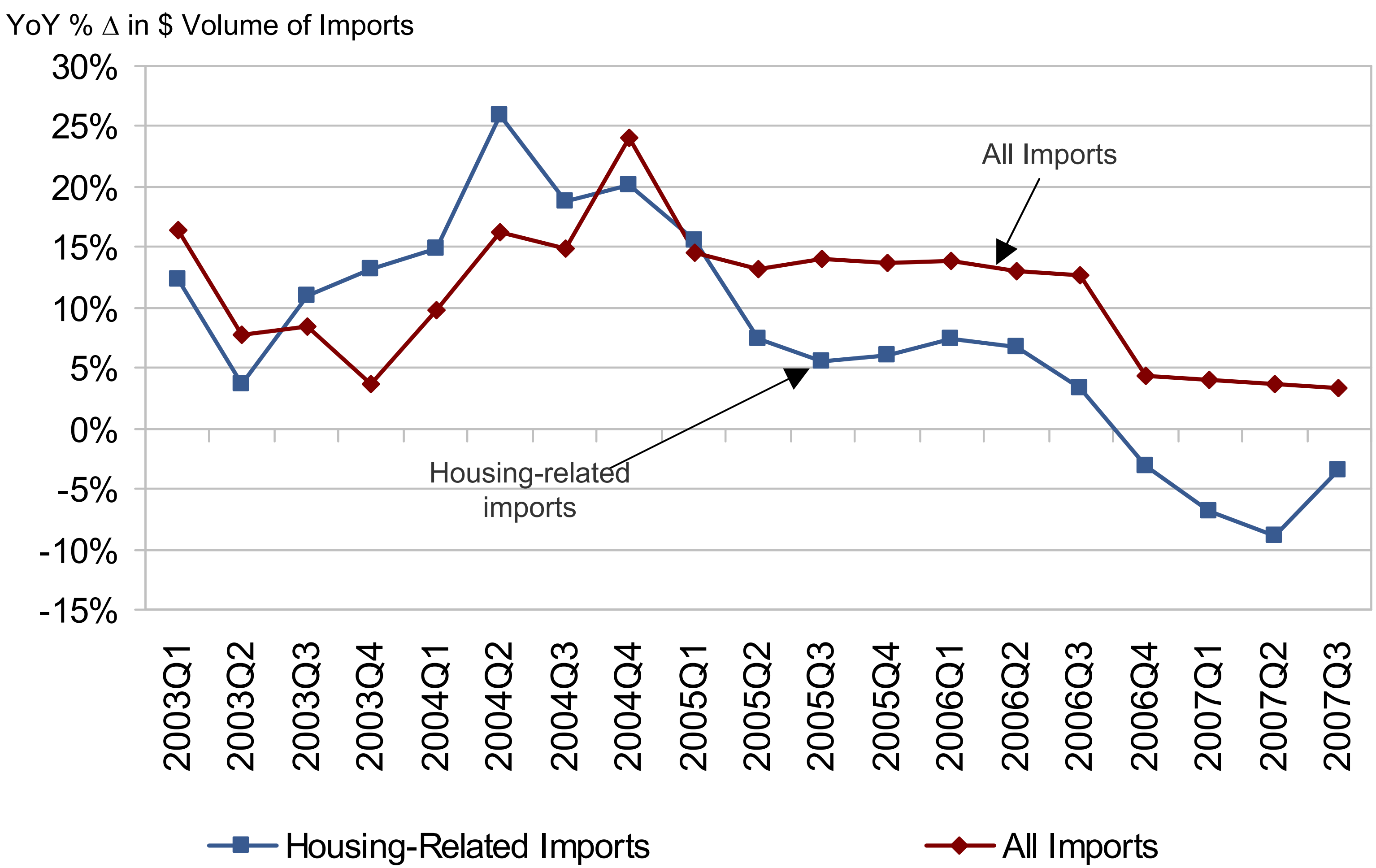
Declining Warehouse Demand Linked to Lower Import Growth



Sources: TWR Industrial Outlook XL, Winter 2008; BOC

Not Surprisingly, Housing-related Imports Are a Factor



Source: BOC

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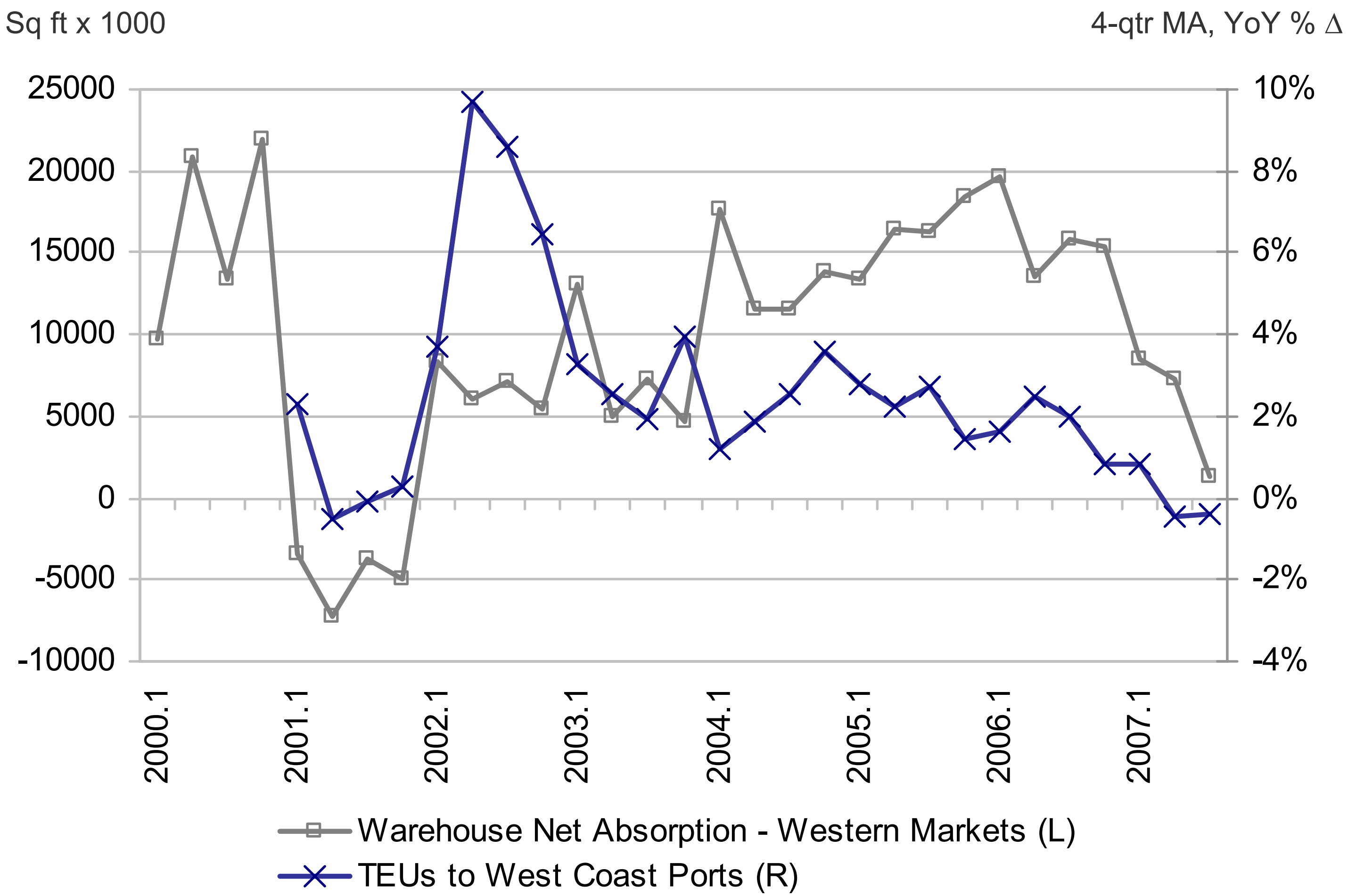
West Coast Container Traffic & Warehouse Demand Falling



Sources: TWR Industrial Outlook XL, Winter 2008; AAPA

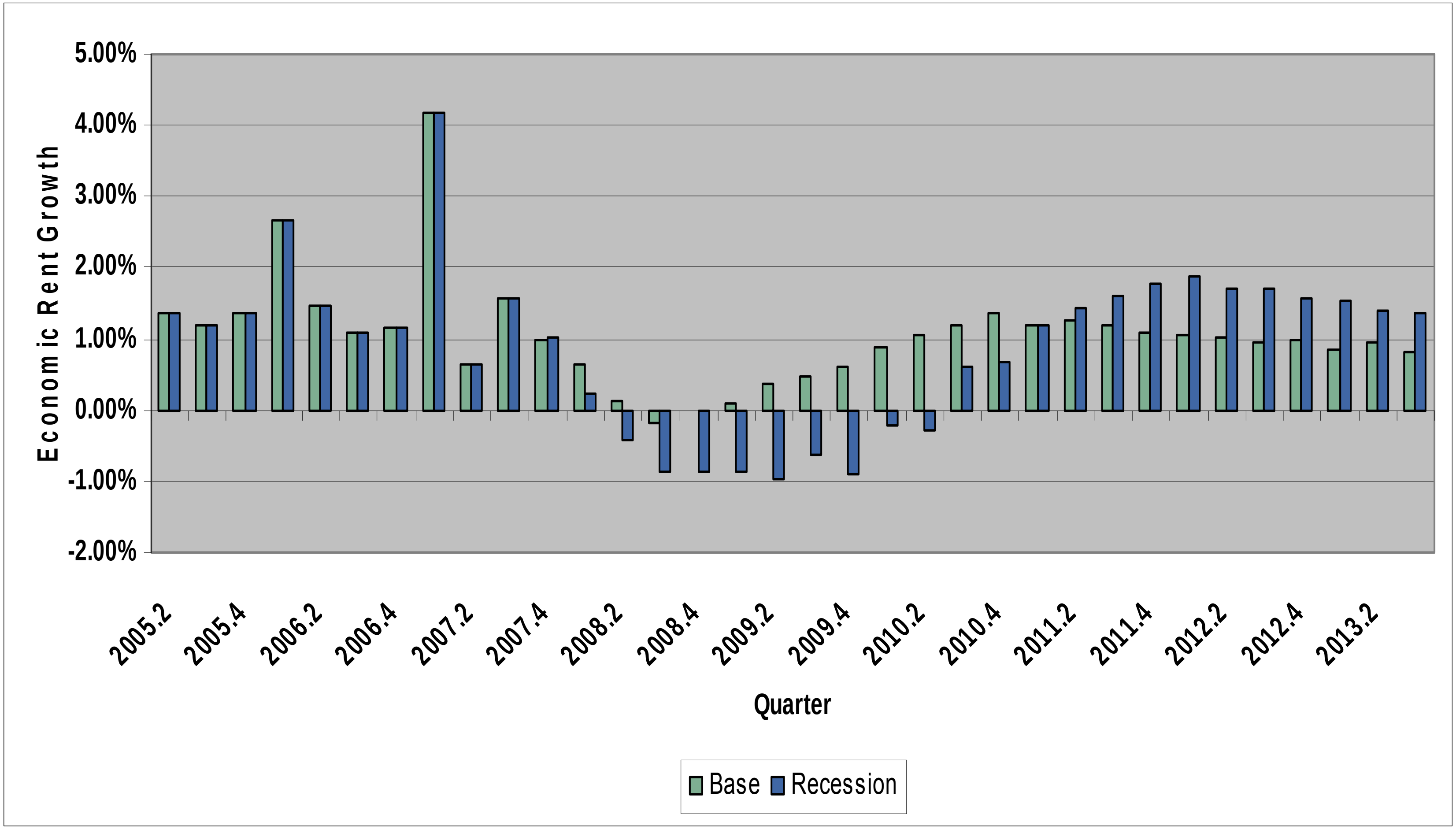
Top Performing Industrial Markets Based on 2-Year Historical Rent Growth

Rank	Market	Current (SF x 1000)	Net Absorption %	Availability %	Rent Growth
1	Orange County	285,889	0.8	6.3	5.9
2	Ventura	62,663	0.4	6.7	2.4
3	San Diego	188,629	1.4	9.0	3.1
4	Los Angeles	901,471	0.7	4.8	0.6
5	Ann Arbor	22,063	-2.9	14.6	0.3
6	Seattle	275,318	2.6	7.7	6.5
7	Fort Lauderdale	109,362	1.3	6.8	3.5
8	Las Vegas	82,167	5.8	6.8	8.3
9	San Francisco	99,137	1.7	7.3	10.0
10	Washington, DC	184,683	1.3	10.6	4.1
11	Stamford	53,627	0.1	12.3	-0.2
12	New ark	210,311	0.8	7.8	5.0
13	Miami	215,170	0.9	6.6	11.6
14	Orlando	145,715	2.1	7.3	14.0
15	West Palm Beach	48,573	0.0	5.5	5.5

Source: Torto Wheaton Research, Industrial Outlook XL, Winter 2008

So What's The Worst That Could Happen???

Recession Impact on Economic Rent Growth – Office Sector



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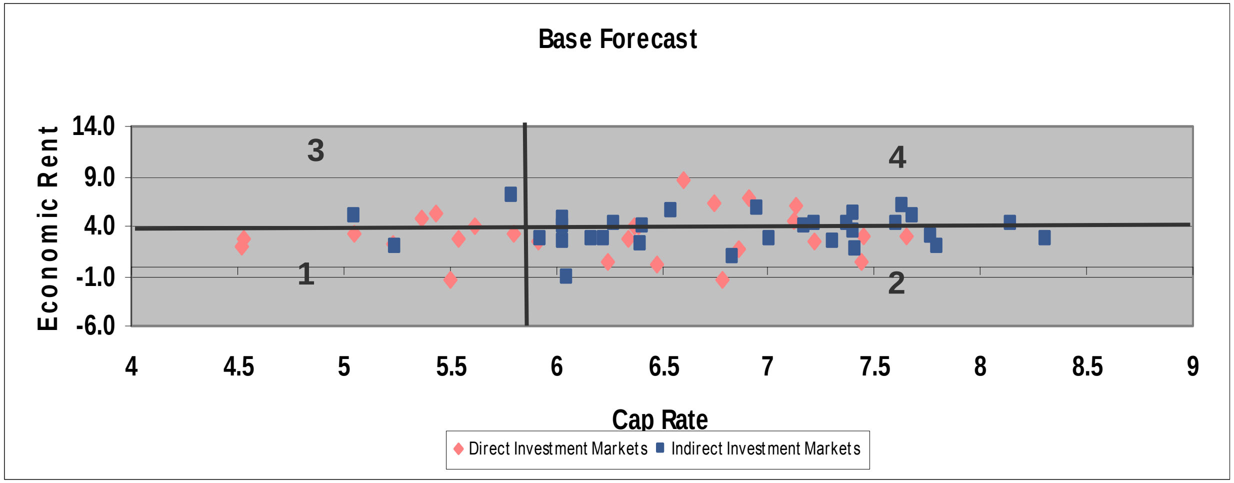
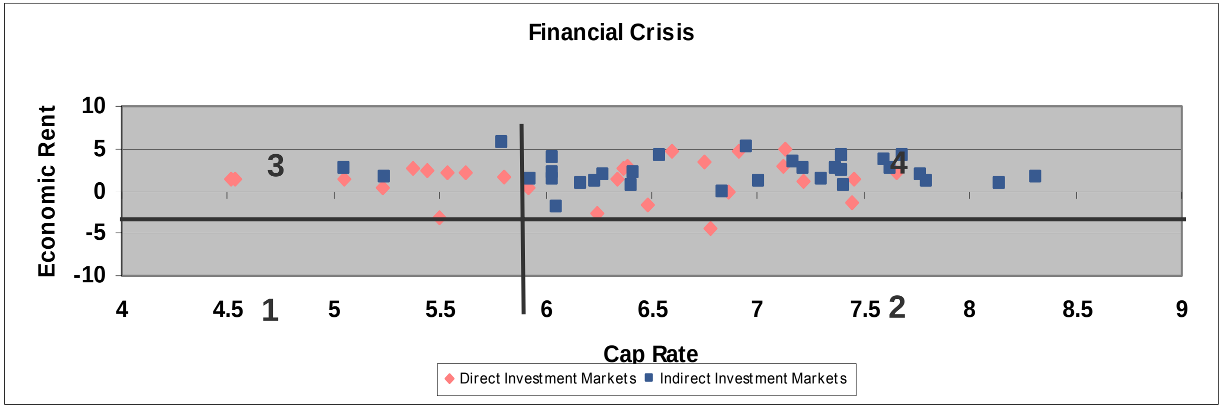
Office Markets That Sustain Favorable Growth to Price Relationships During A Recession..





"Quadrant 4" Recession Survivors

<u>Direct Investment Markets</u>

Portland

Chicago

Dallas

Minneapolis

St. Louis

Philadelphia

Pittsburgh

Sacramento

<u>Indirect Investment Markets</u>

Fort Worth

San Jose

West Palm Beach

Fort Lauderdale

San Antonio

Hartford

Cleveland

Salt Lake City

Jacksonville

Memphis

Orlando

Long Island

Edison

Indianapolis

Tucson

Nashville

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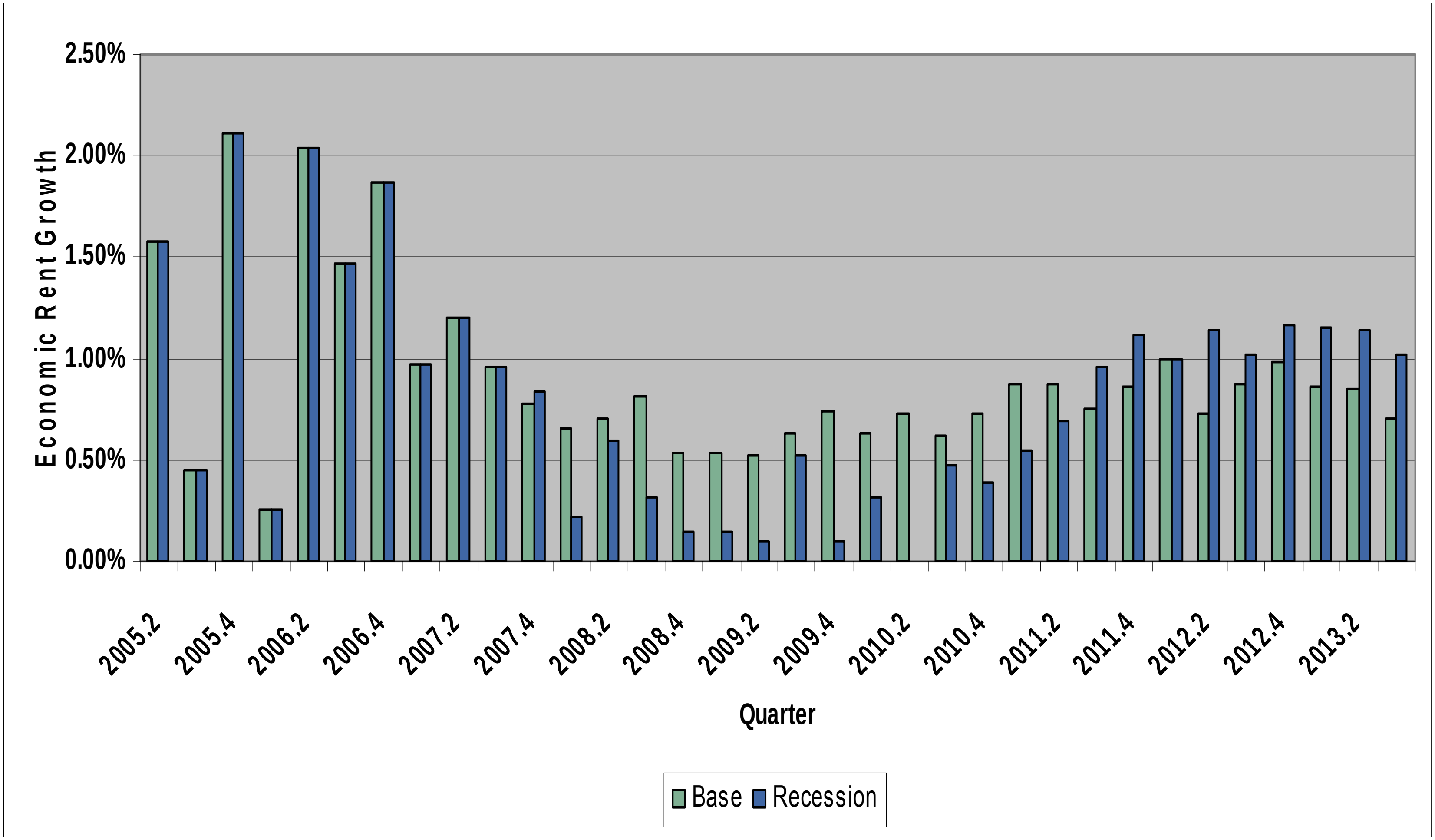
Recession Impact on Economic Rent Growth – Industrial Sector



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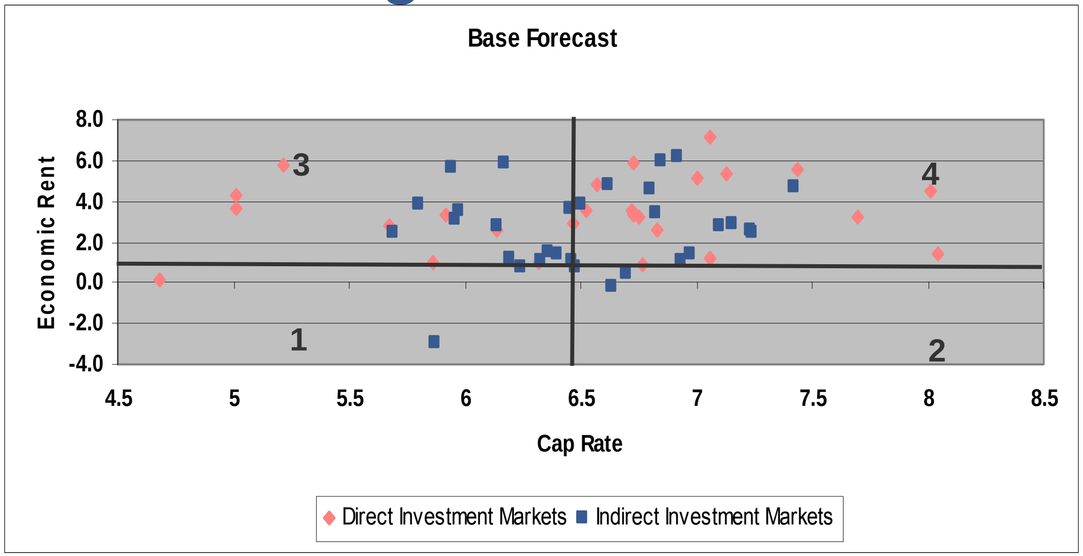

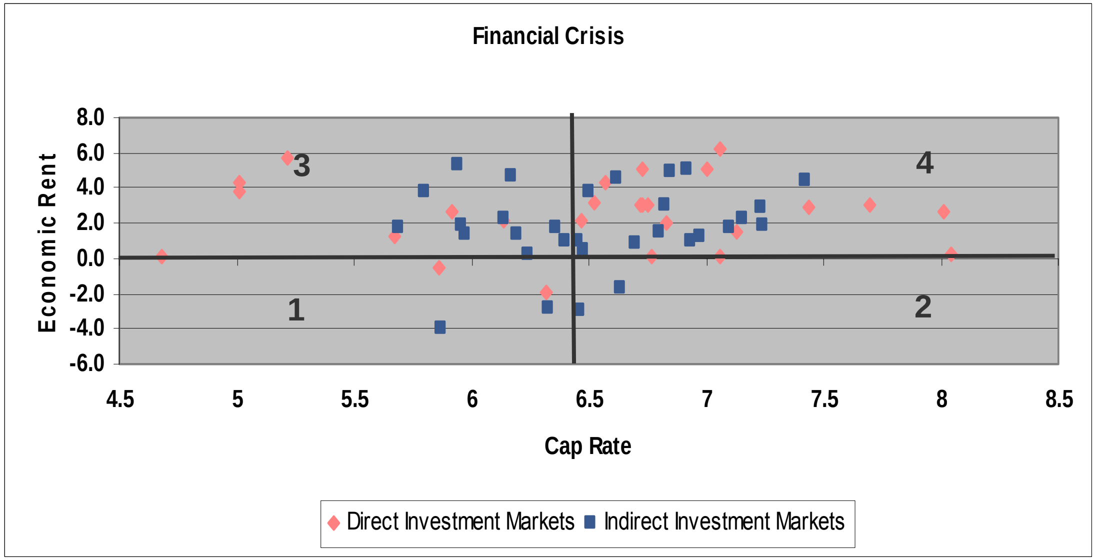

"Quadrant 4" Recession Survivors

Direct Investment Markets

Houston
Atlanta
Cincinnati
San Jose
Cleveland
Columbus
Edison
Minneapolis
Oakland
Fort Worth
Indianapolis
Philadelphia

Indirect Investment Markets

Newark
Austin
Albuquerque
Memphis
Baltimore
Stamford
Hartford
Pittsburgh

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