

U.S. Office Market Mid-Year 2009 Update

During the first half of 2009, businesses reacted swiftly to the weakening economy by slashing jobs. These sharp job cutbacks have translated into a need for less office space, which has caused the U.S. office vacancy rate to climb 170 basis points to 16.2%. The rent response to softening fundamentals has been delayed as owners have taken awhile to catch up to the market. Concessions have become more generous, but asking rents had fallen only 4.4% by mid year.

New supply has become less of an issue as projects have been completed, delayed or canceled. Nationally, office construction underway at the end of the second quarter was 30% below year-end 2008 numbers. Going forward, smaller construction pipelines will limit market deterioration in many areas, although supply issues will remain in a number of markets where the pipeline of new supply is significant.

As tenants falter and markets soften, income from properties is falling, creating distress for highly-leveraged owners. At 4.1% in the second quarter, commercial mortgage delinquency rates have more than doubled from 1.9% one year earlier.

Despite slowing job losses during the second half of 2009, Foresight Analytics estimates that 1.6 million office-occupying jobs will be lost during 2009, causing office vacancy

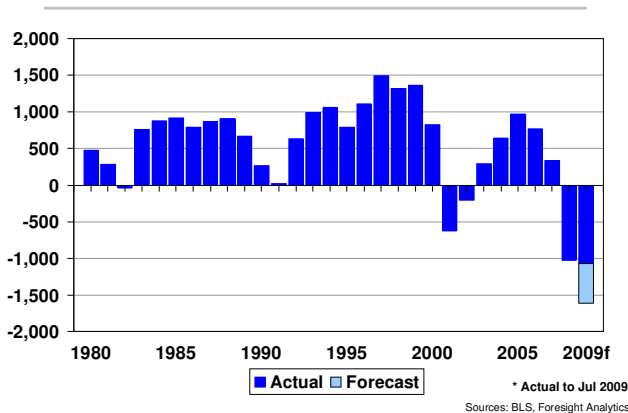
to rise further before year end. Landlords will become more focused on doing deals and will lower rents so that they are better aligned with market conditions. Leasing activity will increase as tenants shop for better lease terms and renegotiate leases at better rates. We believe that market deterioration will slow in 2010, but that real market improvement is several years away.

Following a dearth of office sales transactions during the past 18 months, largely the result of mismatched buyer and seller perceptions of building value and a lack of available financing, office sales transaction volume is increasing and will rise further as distressed sellers adjust their expectations downward.

Distressed sales are not manifesting themselves as quickly as might be expected, partly because a number of lenders are offering short-term extensions for maturing loans, hoping that markets will strengthen and essentially pushing the problems out. As a result, we expect a greater volume of still-distressed loans maturing in 2010 and 2011, potentially resulting in several additional years of weak office values.

The complete report, including discussion and statistics on 39 metro areas, can be purchased through our website at www.foresightanalytics.com.

Office Employment Growth
Jobs Added / Lost in 000s



Commercial Mortgage Delinquencies
Percent of Amount Outstanding

