

MARKETBEAT

UNITED STATES OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



1Q10

ECONOMY

First quarter 2010 data broadly suggest steadily improving economic conditions, though an official “end” date to the recession has yet to be declared. Business and consumer spending is gradually rebounding. Adding to the momentum was the addition of 162,000 jobs in March, after more than two years of uninterrupted employment losses. About one quarter of the job growth was in the government sector, some of those gains reflect temporary hiring for the 2010 Census. Furthermore, there were signs that the office-using employment was slowly gaining strength. The professional and business services sector added 11,000 jobs in March for a total of 202,000 new jobs since September 2009. There were also some encouraging signs in the financial system. Interest rates remain low, the Federal Reserve has begun to remove its support programs for credit markets and markets appear to be functioning normally.

OVERVIEW

With growing optimism about the strength of the recovery, the U.S. office market showed signs of stabilization in the first quarter. Leasing activity continued its positive momentum, with volume in some markets already showing a return to near-historic averages. Manhattan posted new leasing activity totaling 5.7 million square feet (msf) in the first quarter, up more than 80.0% from the same period a year ago and just slightly below the long-term average of 6.0 msf. The volume of new leases in both Central Business Districts (CBDs) and suburban markets rose to 41.6 msf in the first quarter, a substantial gain from the record low of 33.3 msf in the same period a year ago. However, by historical standards, new leasing still trailed its 10-year average of 54.0 msf. Once again, the government sector remained at the forefront of activity, as stimulus efforts pumped jobs and dollars in various markets. In both Denver and Washington, D.C. metropolitan areas, the General Services Administration (GSA) began to use funds from the \$787 billion economic-stimulus package to lease temporary spaces as new energy-efficient government buildings are being built or renovated. GSA was also the driving force behind the largest deal during the quarter, signing a 575,000-square foot (sf) lease that will jump-start the construction of the new headquarters of an expanding National Cancer Institute in Suburban Maryland. Overall, the federal government signed 1.5 msf of new leases greater than 50,000 sf across the country this quarter; this comes on the heels of over 2.0 msf of large leases it completed for all of 2009.

Another sign of improvement was the downward adjustment in sublease availability for a second consecutive quarter. Approximately 63.3 msf of sublease space was available in both CBDs and suburban markets through the first quarter, down from 71.2 msf at year-end 2009. While some sublease space has been converted to direct, less sublease space is hitting the market. At the same time, subleasing has remained active as tenants continued to take advantage of favorable terms. Subleases accounted for nearly 20.0% of new leases signed for 50,000 sf or more across the country this quarter. Investment activity was off to a good start as well, showing a modest resurgence in the first quarter. Sales of significant office properties totaled \$5.1 billion (\$3.2 billion in suburban markets and \$1.8 billion in CBDs) compared to \$3.7 billion over the same period in 2009. Notably, this year-over-year gain of nearly 40.0% is the highest since the financial crisis first gripped the investment market in the third quarter of 2007.

However, overall conditions in both CBDs and suburban markets remained generally weak. Overall absorption declines, while moderating, continued to create upward pressure on vacancies. Moreover, new development continued to be a drag. Speculative completions particularly in Midtown Manhattan, Miami, Atlanta, Phoenix and Boston’s suburban market added 5.1 msf to vacant space in the first quarter. As a result, overall vacancies climbed for a ninth consecutive quarter and are at their highest levels since the second quarter of 2004: 15.0% in CBDs and 19.4% in suburban markets. Even so, such a “soft” backdrop still offers some encouragement. *First*, the increase in vacancy during the quarter was the lowest recorded since the contraction began in 2007; indeed, more than half of all markets posted flat to declining vacancies from the end of 2009. *Second*, the pace of rent declines has eased considerably since the fourth quarter of 2008; in some markets, rental rates for top-grade space have begun to stabilize. *Lastly*, the construction pipeline continued to shrink and thus is less likely to pose a challenge in the next 2 to 3 years.

FORECAST


The outlook for the office market calls for a slow and steady improvement as the economic recovery gains further traction. However, no substantial recovery in the office market can begin until jobs are being created at a healthy enough pace to cause absorption to turn up decisively. Even with the possibility of absorption gains towards the end of the year, the uptick will be modest relative to the excess office inventory as well as the new supply of 12.4 msf slated to deliver through the remainder of 2010. Vacancies are likely to continue their gradual uptrend in both CBDs and suburban markets at least through this year, and continue to put pressure on rents and property values.


ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.4%	2.9%	3.9%
CPI Growth	-0.3%	2.0%	2.0%
Unemployment	9.3%	10.0%	9.5%
Employment Growth	-4.3%	-0.7%	1.6%

Source: Moodys|Economy.com

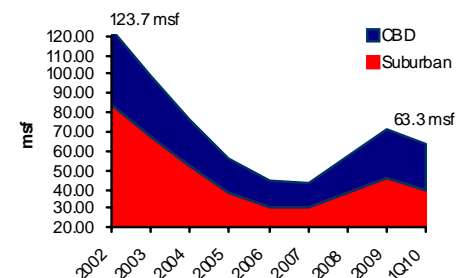
MARKET FORECAST

LEASING ACTIVITY will continue to gradually build momentum this year as the economy recovers. However, the pace is likely to remain below trend over the near term. Any sustainable pick-up in leasing will have to come on the back of solid job growth. 

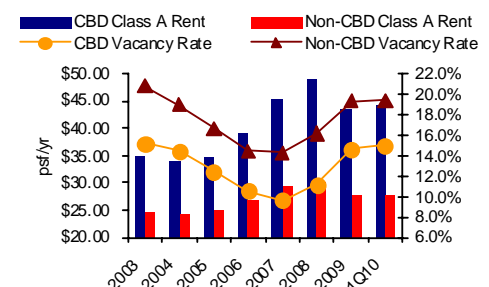
CONSTRUCTION completions will continue to fall to 12.4 msf for the balance of 2010, 7.0 msf in 2011 and 2.3 msf in 2012. The current lack of speculative projects, combined with restrained financing and historically high availabilities, will continue to curb new construction over the next 2 to 3 years. 

RENTAL RATES will continue their downtrend given elevated vacancies in both CBDs and suburban markets. However, the downward pressure on rents will continue to ease and help rates potentially reach a bottom in some markets in late 2010. 

SUBLEASE AVAILABILITY



RENTAL VS. VACANCY RATES



MARKETBEAT

UNITED STATES OFFICE REPORT 1Q10

Market	Inventory		Overall Vacancy Rate		Sublease Vacant Space		Class A Direct Rental Rate*		YTD Leasing Activity		YTD Const. Completions	
	CBD	Non-CBD	CBD	Non-CBD	CBD	Non-CBD	CBD	Non-CBD	CBD	Non-CBD	CBD	Non-CBD
Atlanta, GA	15,463,139	126,814,798	23.2%	21.0%	423,714	2,570,883	\$20.87	\$25.68	186,236	1,579,995	0	1,606,895
Austin, TX**	8,790,239	34,391,079	17.3%	23.3%	201,166	934,316	\$37.13	\$25.87	****	****	0	75,509
Baltimore, MD	14,546,107	53,433,785	17.9%	15.2%	430,363	473,158	\$26.56	\$24.49	23,387	441,209	0	78,220
Bellevue, WA**	8,151,324	22,975,370	15.5%	18.8%	207,724	726,386	\$33.19	\$28.65	190,093	653,756	0	0
Binghamton, NY**	2,080,565	2,530,526	16.9%	8.4%	0	62,431	\$11.58	\$15.48	840	2,500	****	****
Birmingham, AL**	5,165,764	12,184,643	9.8%	16.4%	36,986	742,142	\$20.72	\$21.52	24,205	108,906	0	0
Boston, MA	59,349,159	121,287,818	13.0%	21.5%	1,522,739	3,557,067	\$44.19	\$26.91	347,609	1,967,416	0	765,544
Buffalo, NY**	10,379,834	9,987,738	14.1%	7.4%	29,510	188,387	\$21.73	\$19.56	17,137	77,546	0	0
Charlotte, NC**	14,923,832	30,739,542	8.8%	19.7%	****	****	****	****	****	****	367,811	327,200
Chicago, IL	121,149,638	94,028,545	16.2%	24.4%	2,811,077	2,573,587	\$37.78	\$25.00	1,064,239	1,524,535	0	160,000
Cincinnati, OH**	12,510,439	22,324,653	18.0%	23.6%	556,455	100,376	\$24.34	\$21.14	22,823	278,007	0	0
Cleveland, OH**	35,384,390	106,872,854	13.7%	10.1%	158,853	328,927	\$21.44	\$21.70	56,048	307,815	****	****
Columbus, OH**	9,965,302	22,251,780	16.6%	17.9%	150,357	280,560	\$17.50	\$15.00	47,470	350,970	****	****
Contra Costa, CA	****	31,994,848	****	18.2%	****	532,946	****	\$25.32	****	377,551	****	0
Dallas, TX	28,997,589	150,137,784	29.8%	23.1%	152,767	1,779,927	\$24.68	\$25.81	211,790	2,612,973	0	0
Denver, CO	26,092,344	74,390,190	16.5%	19.3%	528,836	973,326	\$29.19	\$21.71	657,540	1,510,802	0	175,155
Detroit, MI**	25,055,535	67,989,769	22.7%	26.9%	106,943	1,745,305	\$21.70	\$20.06	24,248	467,255	0	0
Downtown NY	86,252,332	****	10.0%	****	1,867,354	****	\$42.29	****	754,479	****	0	****
Fairfield County CT	6,832,948	33,865,007	23.5%	17.9%	201,082	1,143,963	\$44.67	\$33.15	104,433	683,556	0	0
Fredericksburg, VA**	****	7,940,318	****	13.3%	****	76,016	****	\$24.65	****	50,862	****	0
Ft. Lauderdale, FL	5,078,565	25,299,997	20.4%	19.2%	77,569	524,731	\$33.54	\$30.24	63,846	278,007	0	89,000
Hampton Roads, VA**	4,783,559	40,519,773	11.7%	11.3%	12,031	151,394	\$21.99	\$20.79	8,783	243,337	0	0
Hartford, CT	7,976,010	17,606,086	23.8%	16.8%	82,147	220,806	\$23.53	\$20.75	23,383	104,509	0	0
Houston, TX	36,055,436	129,429,596	12.4%	17.2%	714,465	1,815,726	\$38.13	\$29.22	1,003,585	1,490,598	0	0
Indianapolis, IN**	10,741,600	24,659,258	20.7%	22.9%	70,582	433,524	\$20.13	\$19.56	135,329	194,623	0	0
Inland Empire CA	****	18,748,997	****	25.6%	****	292,262	****	\$26.42	****	363,013	****	70,837
Jacksonville, FL	7,545,933	17,323,981	21.6%	22.9%	93,673	149,420	\$21.26	\$21.34	41,920	172,622	0	0
Kansas City, MO**	12,581,890	33,893,693	20.7%	18.6%	103,801	73,899	\$21.31	\$21.80	64,276	400,713	0	0
Las Vegas, NV**	2,002,465	40,963,262	15.2%	23.4%	****	****	\$32.40	\$27.84	2,400	625,358	0	20,895
Long Island, NY	****	31,963,895	****	17.6%	****	1,041,662	****	\$32.93	****	608,863	****	0
Los Angeles CBD	28,480,147	19,709,908	16.6%	15.6%	537,133	217,626	\$35.87	\$26.72	182,762	217,545	0	0
Los Angeles Metro*	****	164,563,698	****	17.7%	****	3,422,780	****	\$35.07	****	1,715,817	****	0
Louisville, KY**	9,161,133	10,721,744	12.6%	18.5%	80,002	27,000	\$20.94	\$19.52	38,448	94,477	0	0
Memphis, TN**	5,286,843	21,168,293	17.1%	15.4%	45,314	163,925	\$16.82	\$22.10	1,183	113,847	0	147,982
Miami, FL	12,972,465	35,850,497	19.6%	18.1%	256,540	405,498	\$45.33	\$34.53	147,053	369,910	585,000	87,358
Midtown South NY	64,584,632	****	9.9%	****	1,350,577	****	\$53.47	****	923,906	****	0	****
Midtown NY	241,414,890	****	12.6%	****	6,925,263	****	\$69.49	****	3,989,460	****	1,056,851	****
Milwaukee, WI**	10,649,210	17,836,255	20.3%	19.8%	98,736	135,421	\$23.61	\$20.42	22,676	274,457	0	75,190
Minneapolis, MN	35,175,136	44,328,337	19.3%	19.9%	394,544	688,622	\$27.45	\$27.21	****	****	0	33,290
Nashville, TN**	7,563,672	22,987,589	23.4%	11.9%	343,254	387,291	\$22.49	\$22.27	104,776	412,114	0	190,737
New Haven, CT	2,867,835	7,290,313	10.9%	13.0%	0	29,013	\$29.64	\$21.57	10,204	35,875	0	0
New Jersey - Central	****	74,170,438	****	21.0%	****	1,860,225	****	\$24.41	****	385,095	****	42,032
New Jersey - Northern	****	106,920,113	****	16.4%	****	3,009,175	****	\$29.55	****	1,175,143	****	0
Northern VA	****	129,958,229	****	15.6%	****	2,494,727	****	\$32.16	****	1,145,428	****	100,000
Oakland, CA	13,039,926	13,398,916	17.7%	20.4%	264,083	240,640	\$30.91	\$29.24	219,226	133,619	0	0
Oklahoma City, OK**	6,543,020	10,149,649	24.0%	12.1%	59,490	38,022	\$15.00	\$19.50	****	****	0	0
Orange County CA	36,010,434	45,601,815	24.0%	18.0%	735,478	657,349	\$29.19	\$27.52	848,208	939,174	0	0
Orlando, FL	7,454,870	30,488,697	19.4%	21.5%	177,782	871,086	\$26.67	\$23.24	112,669	413,342	0	0
Palm Beach, FL	3,131,529	22,837,649	25.4%	24.4%	108,026	286,417	\$43.66	\$33.50	1,965	299,664	0	0
Philadelphia, PA	42,094,020	86,687,422	12.8%	16.9%	489,342	1,326,519	\$27.08	\$25.61	216,963	651,760	0	0
Phoenix, AZ	16,634,196	59,334,302	23.4%	27.6%	98,496	817,866	\$34.12	\$26.57	93,300	925,428	1,005,000	374,498
Pittsburgh, PA**	24,132,972	31,598,498	14.9%	22.0%	224,966	195,237	\$22.52	\$21.17	682,875	431,474	0	0
Portland, OR	20,548,058	21,212,776	12.8%	22.4%	256,298	359,771	\$25.51	\$23.32	452,111	226,368	0	0
Raleigh/Durham, NC**	5,582,306	35,254,690	****	****	****	****	\$22.61	\$21.06	****	****	0	315,784
Richmond, VA**	11,264,352	45,248,528	13.1%	10.9%	178,656	250,233	\$24.83	\$18.96	16,867	332,648	0	4,800
Roanoke, VA**	3,958,956	7,078,970	7.7%	8.9%	4,852	1,000	\$22.39	\$19.00	10,705	22,952	0	0
Rochester, NY**	6,234,178	7,218,149	19.6%	12.0%	****	****	\$21.00	\$19.25	****	****	****	****
Salt Lake City, UT**	7,188,574	23,796,305	20.2%	17.5%	136,518	460,434	\$28.30	\$23.22	174,988	344,535	0	68,000
San Antonio, TX**	5,418,934	21,318,282	28.6%	18.5%	349,309	231,391	\$21.05	\$24.70	9,214	378,040	0	69,959
San Diego, CA	11,087,949	61,453,120	15.5%	16.5%	31,794	828,193	\$30.12	\$31.44	299,010	1,296,154	0	237,114
San Francisco Peninsula CA	****	34,730,586	****	16.3%	****	1,236,954	****	\$33.67	****	759,871	****	0
San Francisco, CA	48,528,215	24,994,178	12.6%	18.2%	852,823	349,477	\$38.04	\$31.23	724,055	447,413	0	0
San Gabriel Valley CA	****	11,133,336	****	16.6%	****	284,347	****	\$28.51	****	70,311	****	0
San Juan, PR**	6,006,667	9,774,348	10.9%	16.3%	****	****	\$20.62	\$18.35	****	****	****	****
Savannah, GA**	1,236,797	2,135,393	26.3%	24.5%	****	****	\$20.30	\$22.05	****	****	****	****
Seattle, WA**	40,274,636	8,902,716	21.4%	22.0%	887,595	103,523	\$30.58	\$22.09	682,215	116,121	0	162,866
Silicon Valley CA	6,518,576	36,916,372	23.1%	21.3%	95,396	827,903	\$38.35	\$31.56	76,977	918,259	0	0
Southern NH	****	12,408,453	****	19.8%	****	266,078	****	\$16.95	****	93,551	****	0
St. Louis, MO**	12,987,327	36,803,087	26.0%	14.2%	89,135	400,224	\$19.32	\$23.29	280,901	580,714	0	0
St. Petersburg/Clearwater FL	****	13,214,067	****	23.0%	****	121,977	****	\$21.63	****	259,276	****	0
Suburban MD	****	55,106,306	****	17.6%	****	907,687	****	\$32.19	****	983,979	****	313,130
SWFL (Fort Myers, FL)**	****	16,932,194	****	19.2%	****	373,622	****	\$14.21	****	****	****	****
SWFL (Naples, FL)**	****	8,279,382	****	19.3%	****	286,959	****	\$19.15	****	****	****	****
Syracuse, NY**	6,862,650	10,278,403	26.1%	15.8%	114,594	107,308	\$16.60	\$18.03	0	38,851	0	0
Tampa, FL	6,371,629	25,587,666	20.0%	19.5%	41,337	231,830	\$22.97	\$25.27	72,727	414,924	0	0
Tucson, AZ**	4,077,651	18,721,858	7.4%	13.0%	5,898	94,676	\$23.29	\$24.14	16,923	89,226	0	34,946
Tulsa, OK**	7,812,870	12,618,092	21.0%	23.1%	78,129	138,799	\$17.30	\$18.58	****	****	0	0
Washington, D.C.	101,930,040	****	14.5%	****	1,735,307	****	\$56.74	****	856,364	****	199,594	****
Westchester County NY	6,239,527	22,132,760	15.6%	18.0%	229,202	454,609	\$32.40	\$31.43	61,602	214,383	0	0
TOTAL - ALL MARKETS	1,465,182,760	2,945,401,964	15.6%	18.6%	27,815,973	49,084,561	\$39.70	\$25.64	16,406,432	34,799,235	3,214,256	5,626,941
TOTAL - C&W MARKETS	1,120,423,274	2,086,355,281	15.0%	19.4%	23,485,117	39,845,833	\$44.36	\$27.76	13,771,009	27,808,131	2,846,445	4,133,073

*Full-service rental rates (psf/yr)

**Alliance Market

For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at www.cushmanwakefield.com/knowledge
 Cushman & Wakefield, Inc.
 1290 Avenue of the Americas
 New York, NY 10104-6178
 (212) 841-7500

*Market terms & definitions based on BOMA and NAIOF standards.
 This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

©2010 Cushman & Wakefield, Inc. All rights reserved.

Please consider your environmental responsibility before printing this report.

