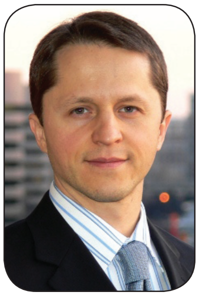

SIOR Index — Office and Industrial Markets Advance 4.2 Percent in Third Quarter 2012

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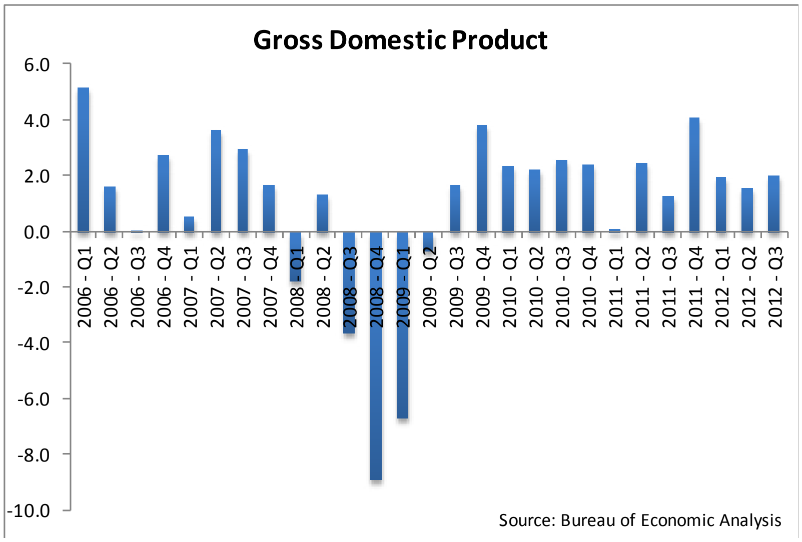
NAR Economic Overview

The economy continues to expand – though at a slow pace. The 2.0 percent GDP growth in the third quarter is nothing to cheer about and the fourth quarter looks to be even weaker, squeaking out only 1.0 to 1.5 percent growth. The unresolved 'fiscal cliff' issue and Europe officially entering a fresh recession have resulted in companies holding on to piles of cash that is not turning into investment spending. As of the third quarter the corporate profits reached an all-time high of $2 trillion, yet non-residential investment spending fixed investment spending fell 1.3 percent. Government spending, though not necessarily a positive for the long haul if it takes away money out of the private sector for less efficient government outlays, directly impacts the economy in the short run, particularly when there are slacks in the economy. Government spending in the third quarter rose 3.7 percent, which added 0.7 percentage point to the overall GDP growth. But because of the very large budget deficit, government spending will have to fall in the coming years and will, as a result, hold back short-term GDP growth potential. The 12-month moving budget figures show over $1 trillion deficit for every single month since early 2009. The peak 12-month deficit was reached in February 2010 when it touched $1.5 trillion.

A combination of continuing high budget deficits and an ultra-loose monetary policy will no doubt begin to exert inflationary pressure at some point in the future. The Federal Reserve's public pronouncement of its willingness to tolerate higher inflation in order to bring the unemployment rate down also suggests the more likely possibility of a higher inflation in out-years. Right now, given the high unemployment and low capacity utilization at factories, the inflation rate has been very manageable at 2 percent. Inflation is likely to be under 3 percent in 2013. However, by 2014 and beyond, there is a distinct possibility of a notably higher inflation rate, possibly approaching 5 percent.

Real estate property prices are likely to be a good hedge against inflation. As long as rents can rise in line with inflation, then property prices should also match up closely. The likelihood of a higher rent is developing from the simple fact that net absorption has been outpacing new construction. Vacancy rates will therefore fall, which in turn, will put upward pressure on rents. The multifamily sector will do best in terms of rent growth because of housing shortage developments that is already taking place.



The industrial space demand will moderate slightly because of slower than expected growth in international trade. In nominal terms exports have grown 2.2 percent in the past year, though they are up solidly by 43 percent from the low point 4 years ago. Imports have grown 1.3 percent in the past year, and are up 42 percent from 4 years ago.

The demand for office space will come from growth in employment. The net payroll job addition is now very close to 5 million from the low point few years ago. Still, we need to be mindful that 8 million jobs had been slashed during the Great Recession. Recent job creation has resulted in a fall in the unemployment rate to 7.9 percent. But a large part of the decline was due to many people re-entering school and/or dropping out of the labor force. A sharp increase in people receiving disability benefits has also resulted in fewer official count as being unemployed. Perhaps a better perspective on the labor market is not to focus on the unemployment rate but rather compute the employment rate: how many of the adult population have jobs. By this definition, there has been no improvement in the employment rate, current at 59 percent, compared to 63 percent in early 2008, before the recession hit. In other words, the job creation has been slow such that net new job creation is only barely able to keep up with population growth. Simply, the job market is just treading water without any notable advancement.

The less-than-stellar labor market has resulted in wages that is barely growing and certainly falling behind in relation to consumer price inflation. The standard of living for a typical worker has therefore been falling in the past two years even as the economy was adding jobs.

Even with significant constraints to economic growth, the recovering housing market will be one bright spot that saves the economy. Rising home sales and rising home prices will lead to higher residential investment spending and a steadily higher consumer spending from positive housing wealth effects. GDP is likely to grow by 2.5 percent in 2013 with job additions totaling 2 million. Directional-wise, the business opportunities will be moderately rising as a result.

SIOR Index Results

Rebounding from a slow second quarter, office and industrial properties recorded an advance during the third quarter. The Commercial Real Estate Index, representing third quarter 2012 data, rose 2.9 points. The national index, based on 10 variables pertinent to the performance of U.S. industrial and office markets, closed at 75.6. The office sector jumped 8.6 points to an index value of 70.5, in the wake of moderate employment gains in business and professional services. The industrial sector rose 3.5 points to 79.6, reflecting increases in demand for warehouses. Both sectors' values were the highest since the first quarter of 2008.

With the general economic conditions continuing the forward momentum, commercial markets across the country posted moderate growth. Geographically, all four regions showed improved conditions. The South posted the highest nominal index value during the third quarter—80.5. Markets in the North recorded the strongest growth, followed closely by the South. The Midwest posted the slowest rate of quarterly growth, but closed the third quarter with the second-strongest index value, at 76.1. Markets

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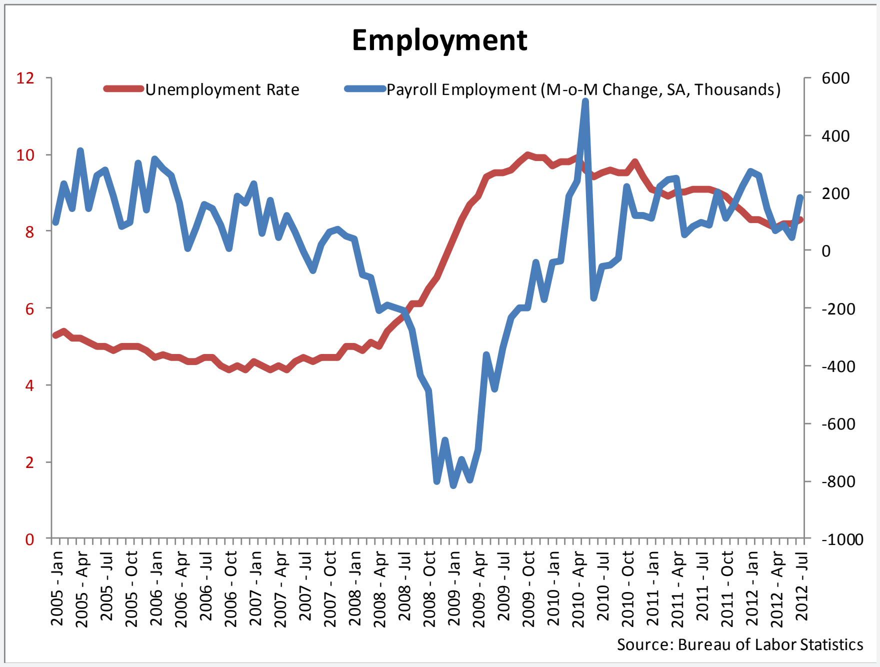

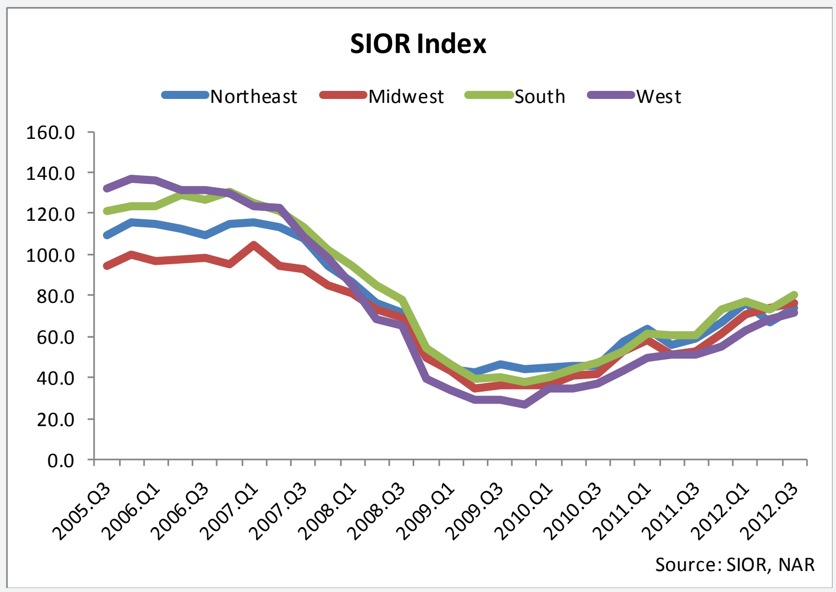

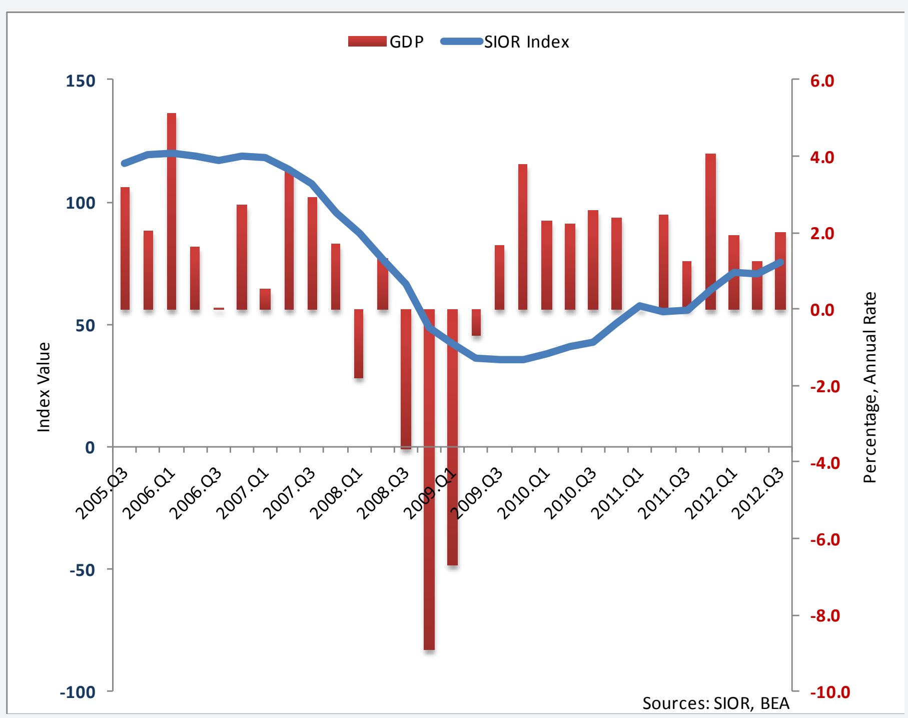

in the West increased 2.9 points over the second quarter, but trailed the other regions.

With positive employment in office-centered industries, coupled with continued trade supporting industrial spaces, leasing activity increased in the third quarter—over 40 percent of respondents found activity in line with or higher than historic levels. Vacancy rates continued in a downward trend, with 84 percent of SIORs pointing to vacancies which are the same or lower than a year ago. Concessions remain the norm for 75 percent of respondents, an improvement from the past few quarters. Subleasing availability was mostly unchanged from the first quarter, with 22 percent of SIORs reporting ample sublease space. With fundamentals notching gains, rents rose, as 62 percent of practitioners reported rents in line with or slightly above long-term averages.

Construction of new commercial space was flat in the third quarter, maintaining the lack of pressure on the supply side. Development conditions continued to strengthen—even though they remain in buyers' favor—acquisition prices were lower than construction costs in 79 percent of the markets. The national economy remains a drag on local economies and markets—78 percent of SIORs found the national economy to have a negative impact upon their markets. However, that figure improved from the 81 percent registered in the second quarter.

Looking at the broader landscape, commercial markets remain resilient against economic trends. Fundamentals are continuing the improve and SIOR members expect conditions to remain positive going into the last quarter of 2012—62 percent of respondents anticipate better markets in the next three months, while 30 percent project no change.