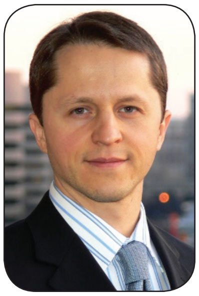

SIOR Index — SIOR Markets Gain 7.3 Percent in Fourth Quarter 2012

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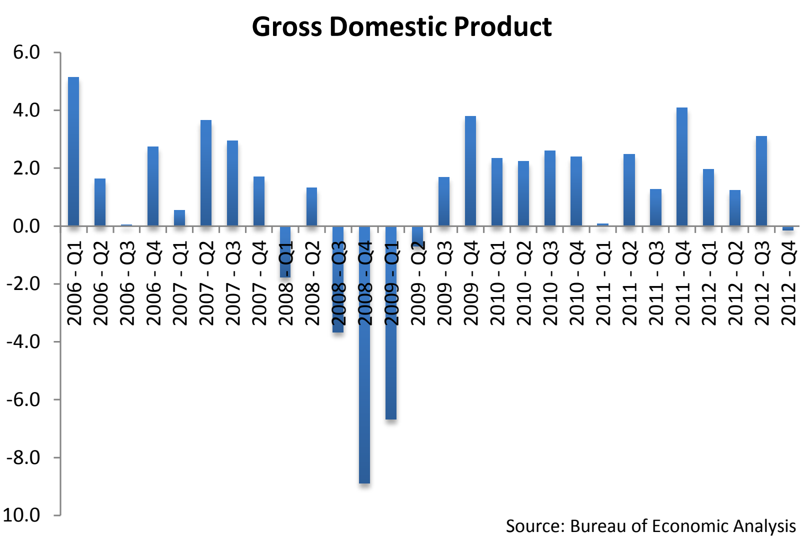
NAR Economic Overview

Based on early estimates, economic activity closed 2012 on a mixed note. Though gross domestic product grew at two point two percent for the whole year, the fourth quarter results were disappointing, showing a 0.1 percent decline. A large 22.2 percent cut in defense spending at the federal level (coming after a surprisingly high defense spending growth in the prior quarter) and a large negative change in private business inventories were key reasons for the mild contraction in the economy.

The year-end brought closure to several sources of uncertainty while opening new ones. The presidential election is over and the "fiscal cliff" uncertainty was partially solved by allowing some provisions to revert to normal (the payroll tax returning to 6.2 percent), while kicking the can down the road on others (sequestration). The housing market continued to firm up nicely with housing starts recording 27 percent gain for the year while new home sales rose 20 percent from the prior year. Existing home sales grew by 9.0 percent during the year, with shrinking inventories driving up prices of existing homes. Rising homes prices elevated homeowners' housing equity by $1.5 trillion over the past two years. The housing wealth gain is helping consumers to hum along at around 2.0 percent growth. In light of these factors, SIOR members recorded a positive fourth quarter.

Looking at the yearly economic activity as measured by gross domestic product (GDP), most major components posted positive growth. Based on the Bureau of Economic Analysis's first estimate, both consumers and businesses increased their spending over 2012. Consumer spending rose 1.9 percent during the year, driven by a 7.8 percent rise in expenditures on durable goods. Consumers spent more in 2012 on cars (up 7.7 percent), furnishings and household equipment (up 5.8 percent), as well as recreational goods and vehicles (up 10.9 percent). Consumers spending on services also increased, by a more modest 1.3 percent.



Private businesses, while maintaining a cautious attitude given the uncertainties present during 2012, upped their spending by 7.7 percent over the year, the second highest annual rate since the recession. This increase was welcoming given the possibility of stalling from the fiscal cliff news headlines throughout the quarter. Spending on commercial structures rose 9.6 percent, in a positive turn for commercial real estate. Companies also spent more on equipment and software, especially transportation equipment, which increased 17.8 percent during the year. Spending on industrial equipment advanced 7.0 percent, while on information processing it grew by 3.8 percent.

The winds of international trade blew favorably for U.S. companies during 2012. Both exports and imports increased during the year, by 3.2 percent and 2.5 percent, respectively. Benefitting from a competitive exchange rate, U.S. companies increased their exports of goods by 4.0 percent and services by 1.3 percent. In addition, import of goods also rose, by 2.2 percent, providing strong demand for the industrial sector. The net exports figure was a positive $2.5 billion for the year.

Government spending declined 1.7 percent, driven by budget cuts at federal, state and local levels. At the federal level, both defense and nondefense cuts added to a 2.2 percent decrease in spending. Still working through lower revenues, state and local governments continued to slash spending by 1.3 percent.

On the employment front, despite a midyear slump, the overall picture was positive—the economy recorded a net 2.2 million new jobs, the strongest yearly growth in the past three years. Added to the totals from 2010 and 2011, there have been 4.9 million new jobs added post-recession. Given the 8.7 million jobs lost during the recession, it is obvious that we still have a large gap remaining. However, the trend is encouraging.

The forecast is for GDP growth of 2.3 percent in 2013 with another two million jobs added to the economy. Though improving, the sub-par recovery performance will keep the unemployment rate well above 7.0 percent throughout this year.

SIOR Index Results

Building on an improving third quarter, office and industrial properties concluded the year on a rising note. The Commercial Real Estate Index, representing fourth quarter 2012 data, rose 5.5 points. The national index, based on 10 variables pertinent to the performance of U.S. industrial and office markets, closed at 81.1. The office sector gained 4.6 points to an index value of 75.1, in the wake of employment gains in business and professional services. The industrial sector rose 6.0 points to a value of 85.6, reflecting increases in demand for warehouses. Both sectors' values were the highest since the fourth quarter of 2007, indicating a post-recession high mark.

With modestly improving macroeconomic conditions, commercial markets across the country notched noticeable growth. Geographically, all four regions advanced, with the South posting the highest nominal index value during the fourth quarter—86.7. Markets in the West and the Midwest were virtually tied in terms of market performance. Meanwhile, reeling from the effects of hurricane sandy, the North lagged slightly behind the others. In terms of quarterly growth, the West saw the strongest rate of improvement, gaining 8.4 points.

As employment in office-centered industries continued to rise, and demand for industrial spaces remained strong, leasing activity increased in the fourth quarter—43 percent of respondents found activity in line with or higher than historic levels. Vacancy rates continued in a downward trend, with

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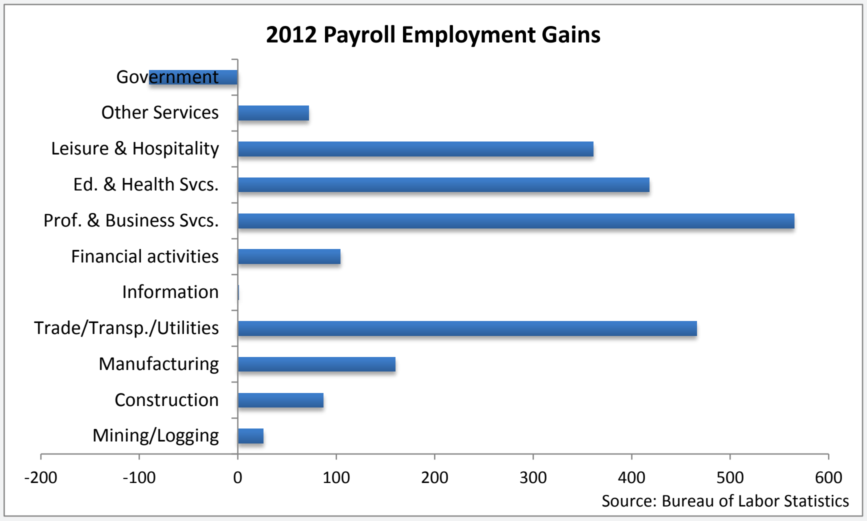

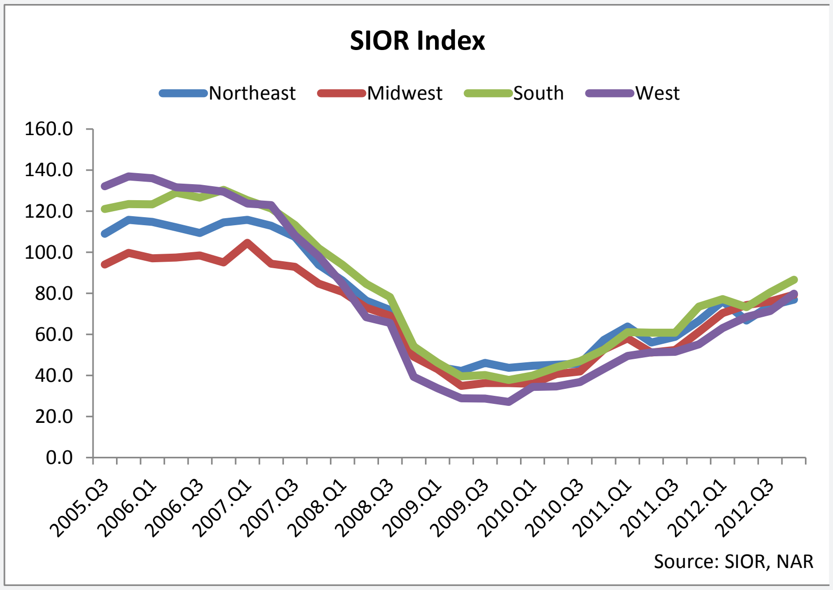

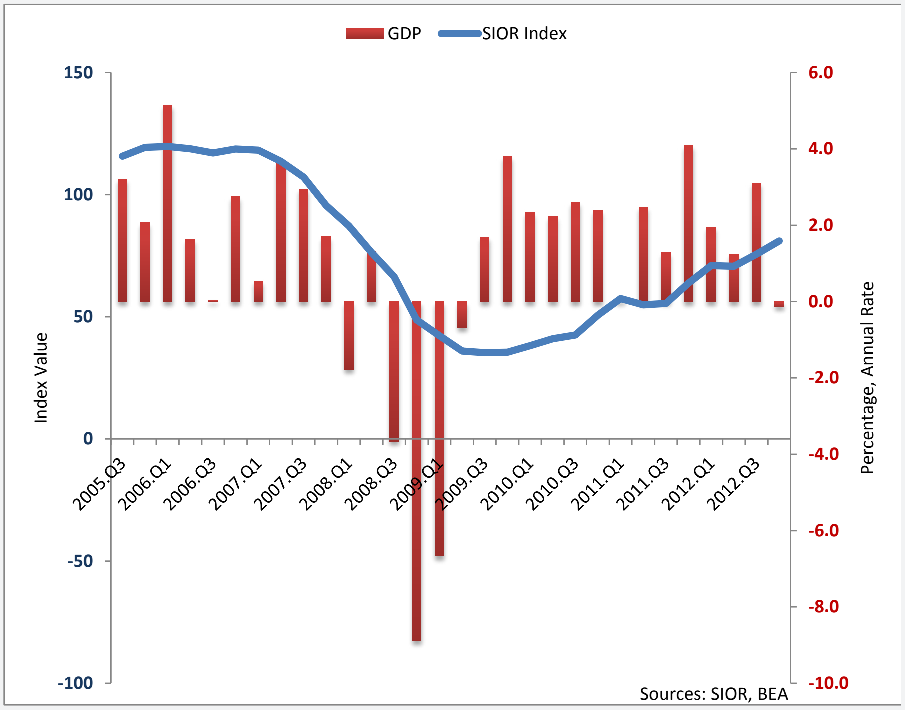

85 percent of SIORs pointing to vacancies which are the same or lower than a year ago. Concessions remain the norm for 68 percent of respondents, a trend which has been constantly declining, slowly moving in landlords' favor. Subleasing availability also notched a slight improvement, with only one in five SIORs reporting ample sublease space. With fundamentals notching gains, rents remained even, as 61 percent of practitioners reported rents in line with or slightly above long-term averages.

Construction of new commercial space picked up during the fourth quarter, with almost 10 percent of respondents reporting growing supply. Development conditions continued to strengthen—even though they remain in buyers' favor—acquisition prices were lower than construction costs in 72 percent of the markets (compared with 79 percent during the third quarter). The national economy's improvement, led to a rise in local economic conditions—66 percent of SIORs reported negative impacts at the local level from national trends, down from 81 percent in the second quarter of 2012.

Looking at the broader landscape, commercial markets continued strengthening during 2012. Fundamentals maintained momentum, and SIOR members expected conditions to remain positive going into 2013—almost two thirds of respondents anticipate better markets in the next three months.