

## U.S. Office Market Outlook- This Downturn is Different

Vacancies are increasing and rents are dropping as the weak U.S. economy is taking a toll on office markets. Strong rent growth that was projected when buildings were purchased by aggressive buyers in recent years is not materializing. Tenants, especially those in finance or mortgage-related businesses, are consolidating or shutting down. As demand for office space decreases, both direct and sublease availabilities are growing, and net new leasing activity is down. The result is higher availability and some of the worst office market fundamentals since the dot.com bust.

Falling demand and increased supply will cause office market fundamentals to deteriorate further during 2009. Many analysts claim that office markets are not in jeopardy because markets are not overbuilt. However, the United States is facing unprecedented job losses in sectors that occupy office space. The nation lost an estimated 900,000 office jobs during 2008 and is set to experience a deeper decline of 1.2 to 1.5 million office jobs during 2009.

New supply is less of a factor today than in previous downturns, but it nevertheless has an important impact on office availability. Little new construction has started in the last six months. The credit crisis, which started in the

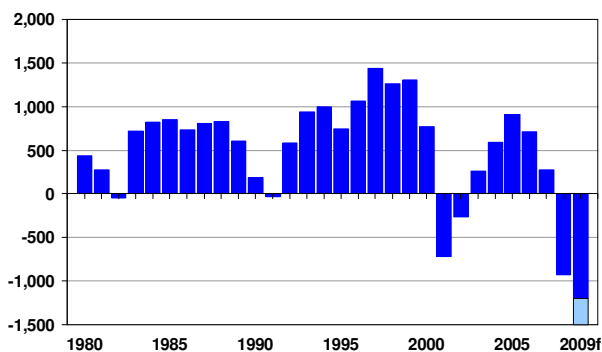
summer of 2007 and intensified in the fall of 2008, limited the ability of developers to obtain financing for new projects. Additionally, a number of projects have been delayed because of the weak economy. Still, more than 80 million square feet of office space were under construction at the end of 2008 that will contribute to market availability when completed.

Distress among owners, especially those who purchased buildings in the peak years of 2006 and 2007, is growing as property values fall in the wake of reduced income. Commercial mortgage delinquencies climbed to an estimated 2.7% in the fourth quarter of 2008 and are expected to jump to 4.3% by year-end 2009.

Our analysis highlights the impact that lost jobs and construction deliveries will have on office vacancies and rent growth in markets around the country. We focus on selected markets that are shifting rapidly from growth mode to deterioration, where changing fundamentals could create distressed investment opportunities.

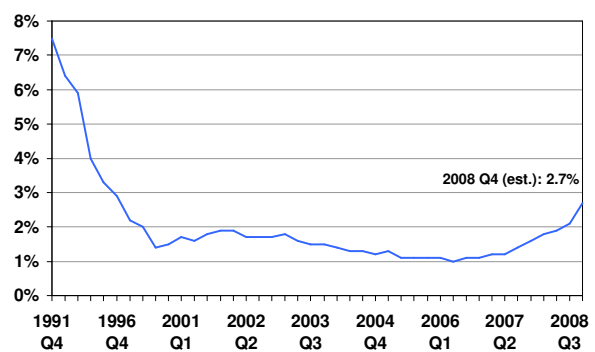
The complete report can be purchased through our website at [www.foresightanalytics.com](http://www.foresightanalytics.com)

Office Employment Growth  
Jobs Added / Lost in 000s



Sources: BLS, Foresight Analytics

Commercial Mortgage Delinquencies  
Percent of Amount Outstanding



Sources: FDIC, Foresight Analytics