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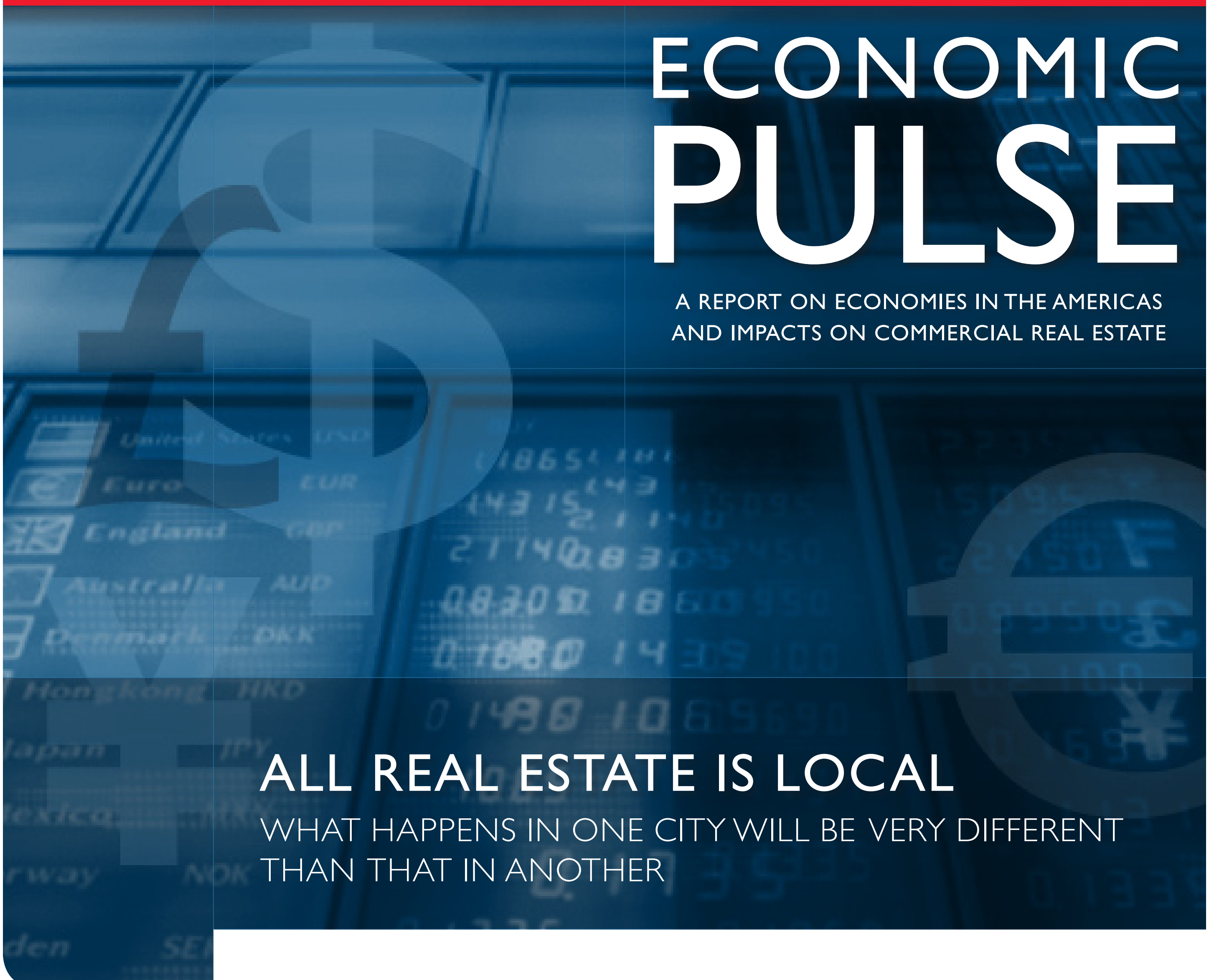

ECONOMIC PULSE

A REPORT ON ECONOMIES IN THE AMERICAS AND IMPACTS ON COMMERCIAL REAL ESTATE

ALL REAL ESTATE IS LOCAL

WHAT HAPPENS IN ONE CITY WILL BE VERY DIFFERENT THAN THAT IN ANOTHER

Back in the 1980s the Speaker of the House of Representatives, Thomas "Tip" O'Neil, was quoted as saying that "All politics is local." What is true in politics is even truer in commercial real estate. While it's important to understand the broad economic landscape within which we are operating, the key driver of markets across the Americas is local economic and market conditions.

The Landscape. The US economy is in recovery. The economic statistics used to track the broad economy: income (adjusted for inflation) and production and inflation-adjusted sales are all rising. US Gross Domestic product increased at a 5.6% annual rate in the final quarter of 2009, its second consecutive increase. More importantly for the real estate industry, the one major measure of economic performance that had been lagging – employment has finally turned decisively upward. Non-farm payroll employment has increased in three of the last five months jumping by 162,000 in March, the largest increase since March 2007.

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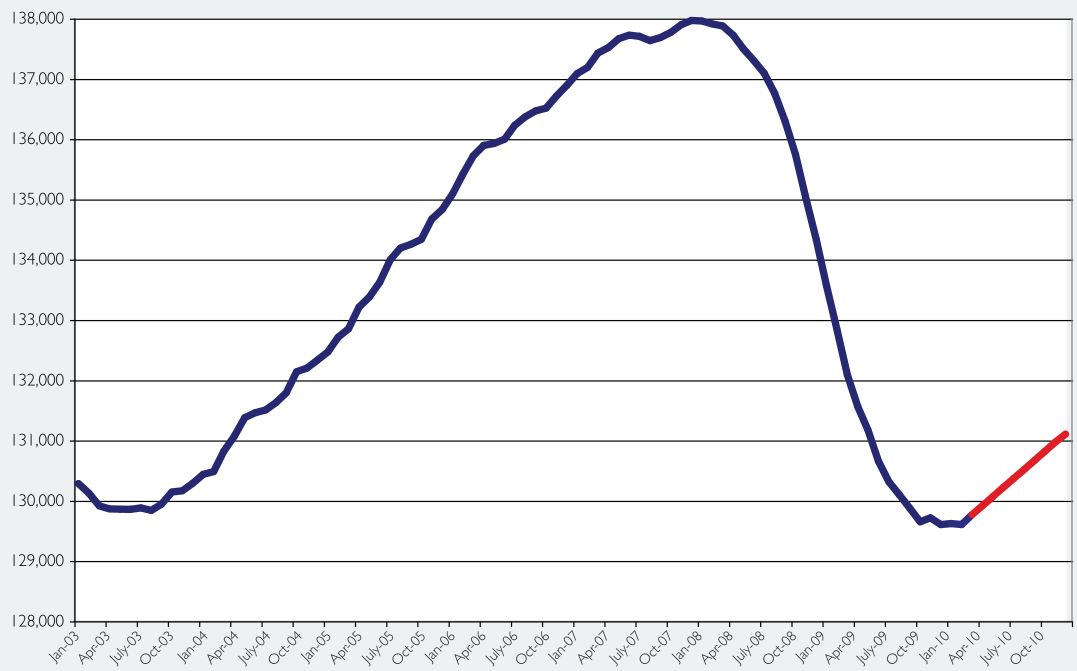
TABLE 1: US PAYROLL EMPLOYMENT WITH FORECAST (thousands of persons)



Source: US Bureau of Labor Statistics

To get an understanding of the regional differences in economic and market performance, Cushman & Wakefield analyzed 18 major metropolitan areas that have large local commercial office markets.

The March increase, plus the upward revision of employment in January and February, puts employment at its highest level since last September and suggests that US payrolls bottomed in December. Other labor market indicators are also pointing to continuing employment growth.

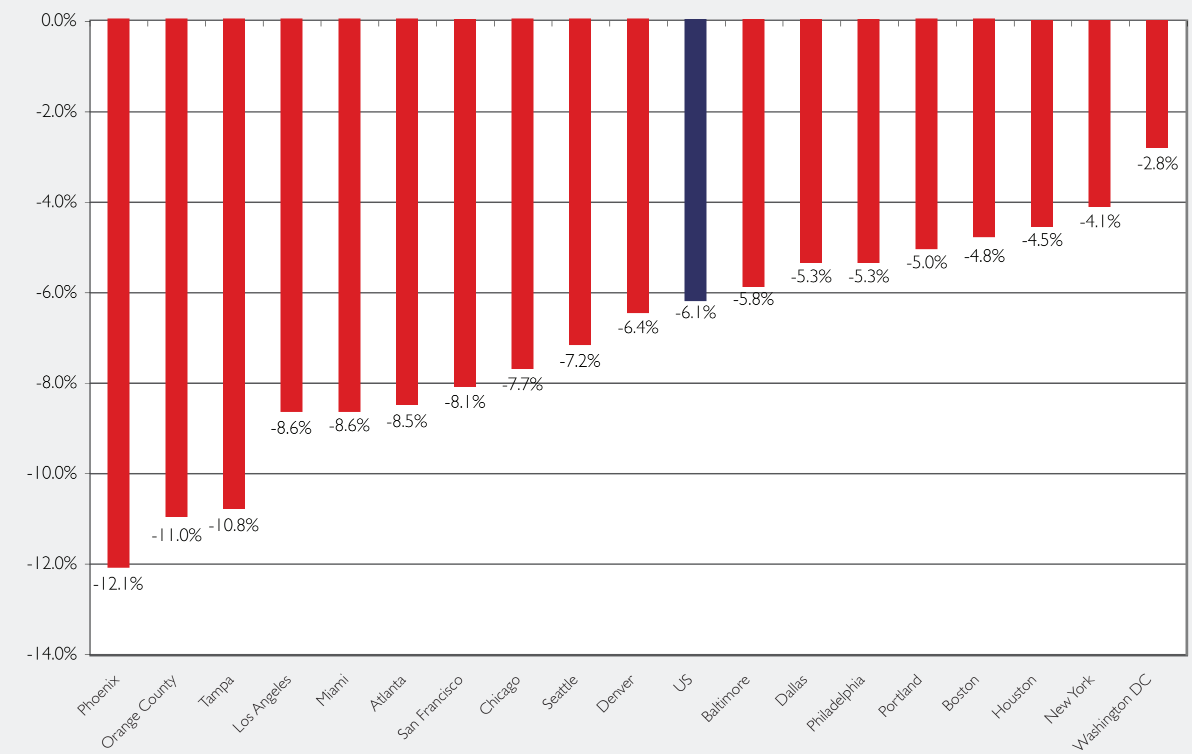
- New claims for unemployment are declining toward 400,000 per week, a number generally consistent with employment stability.

- Employment in the temporary help sector, a leading indicator of overall payroll employment, has shown the strongest growth since the Government started to collect this data in 1990 (up 313,000 since September).

With employment entering an uptrend, the most important unknown will be the strength of the recovery. We anticipate a solid increase in employment for the US as a whole in 2010 with payrolls rising about 1.5 million jobs for the year as a whole. While this will mark the strongest first-year recovery since 1983, it will also leave payroll employment in the US still almost seven million jobs below the 2007 peak level.

Regional Differences. The US economy shed more than 8.4 million jobs during the 2008-2009 recession representing 6.1% of all payroll jobs. But the declines were not evenly spaced around the country. To get an understanding of the regional differences in economic and market performance, Cushman & Wakefield analyzed 18 major metropolitan areas across the country that have large local commercial office markets. Together, these cities represent 72% of the entire central business district (CBD) inventory

TABLE 2: CHANGE IN EMPLOYMENT DATA



Source: US Bureau of Labor Statistics

Cushman & Wakefield tracks across the nation. Of these 18 largest metropolitan areas, 10 have experienced a larger percentage job loss than the nation as a whole, led by the 12.1% decline in Phoenix (we have excluded Detroit, where employment has been declining since 2001 and is now more than 22% below the level of 2001). To get an idea of the magnitude of the decline in Phoenix, if the whole country lost the same proportion of jobs as Phoenix there would be more than 16.5 million without jobs and the national unemployment rate would be on the order of 15%.

Yet, cities with a high proportion of financial services employment were among the least impacted by the recession.

While it is difficult to generalize, an analysis of the employment structure of these cities reveals some important characteristics that appear to have contributed to the relative magnitude of each region's decline.

- Financial Services. The recession of 2008-09 was triggered by a financial crisis. Two of the largest financial institutions in the country went bankrupt and several others were teetering on the brink. Yet, cities with a high proportion of financial services employment were among the least impacted by the recession. The top-three cities in terms of financial services employment are New York (financial accounts for 11.8% of total employment), Boston (11.2%) and Dallas (8.8%). Together, employment in these three cities fell by 4.6% from the peak, far less than the 6.1% decline for the nation as a whole. These three cities were in the top seven lowest job-loss cities.

- Education and Health Care. This is one of the largest employment categories in most metropolitan areas. On average these two broad industries account for 14.7% of total employment across the US. But in several cities the share is more than 20%. The three cities with the highest proportion of employment in these sectors are Philadelphia (22.5%) Boston (21.8%) and New York (19.9%). Since employment in the education and health care sectors actually increased during the recession, cities with high concentrations of these sectors had some of the smallest overall declines.

The somewhat surprising message from the data is the relative resilience of cities that were expected to experience substantial job loss in the recession because of their high concentration of financial services jobs.

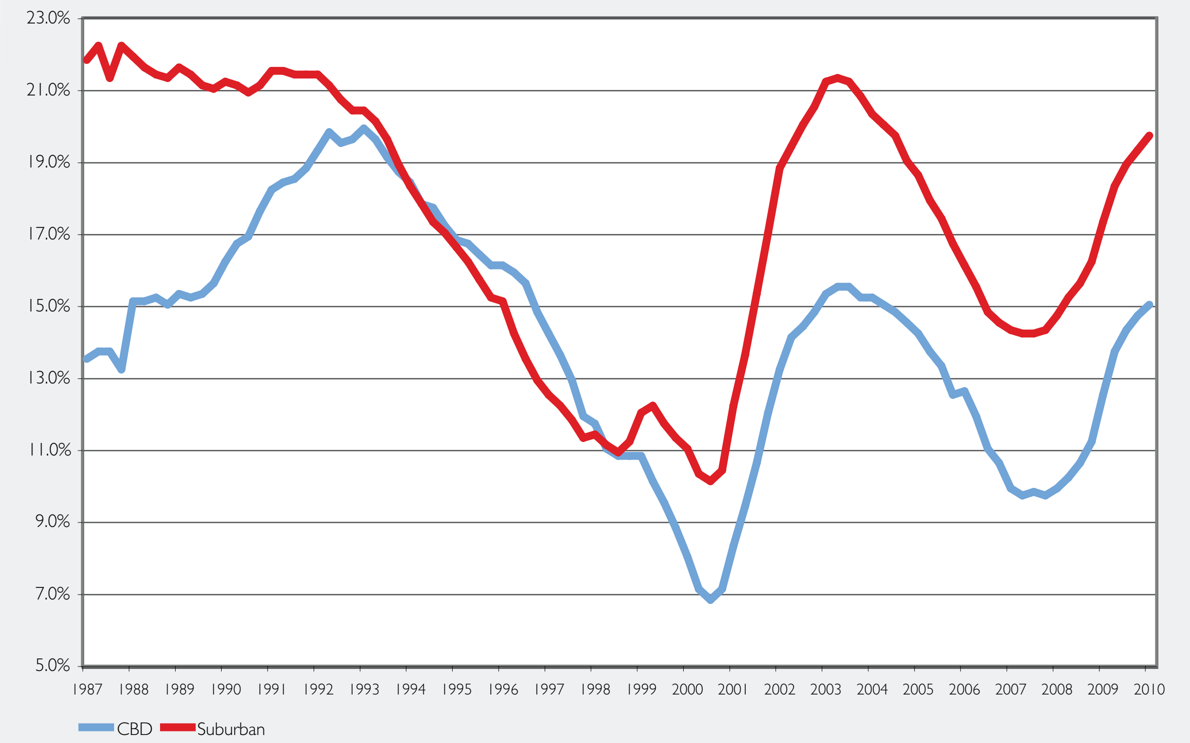
- Government. One of the hallmarks of this recession was the extent to which Government intervened in the economy. From the support of the financial system to the unprecedentedly large economic stimulus package, the Federal Government accounted for a larger share of economic activity than ever before (with the exception of World War II). Overall, Government employment in the US increased 0.4% since the recession began. So it's no surprise that Washington DC with a full 24% of the region's employment in Government has experienced the smallest job loss of any major metropolitan area. However, other cities with a high proportion of jobs in Government have not fared so well: Los Angeles, which has the fourth-highest concentration, is among the largest job losers. Despite the increase in overall Government employment, much has been at the Federal level. Employment in state- and local Government is down modestly since the recession began as many states and localities have been forced to cut employment due to budget strains.

- Manufacturing. The manufacturing sector was one of the hardest hit in this downturn. Over 15.8% of all the manufacturing jobs in the US were lost in the recession. Cities with the highest proportion of employment in manufacturing include: Orange County (11.3%). San Francisco (11.1%) and Los Angeles (10.2%). All three of these cities have seen above-average employment declines. In fact, in the 10 cities where employment has fallen the most, manufacturing accounts for, on average, 7.5% of all jobs, while in the eight cities with the smallest decline, manufacturing represents 6.1% of total employment.

- Construction. The recession of 2008-09 was triggered by the collapse of the housing bubble. As a result, one of the industries that experienced the largest job loss was construction. More than one-quarter of all the construction jobs in the US were lost in the recession. Unfortunately we do not have construction employment statistics on all the major cities in the US, (for example, the Government does not publish construction employment for New York) so it is difficult to make generalizations. However, two of the cities we do have data on: Phoenix and Orange County have the second and third highest share of employment in construction and have experienced the largest job loss.

The somewhat surprising message from the data is the relative resilience of cities that were expected to experience substantial job loss in the recession because of their high concentration of financial services jobs. In fact, New York and Boston were among the best performing cities during the recession. Clearly, the Federal efforts to support the financial system had the desired impact: the economy did not collapse and the banking system survived. As a result, employment in the financial services fell less (-7.2%) than many other sectors such as professional business services (-8.2%), retail (-7.5%) and information (-9.8%).

TABLE 3: NATIONAL VACANCY RATE



In general, the markets that saw substantial employment loss, a large increase in new supply, or some combination of the two also experienced a large increase in vacancy from the December 2007 national vacancy trough.

No one knows with any degree of certainty which industries will experience the greatest employment growth in the coming year. It appears likely that health and education will continue to grow as the US population ages and the need for a better-educated workforce continues to increase. In addition, new programs and policies suggest that Government employment; particularly at the Federal level is likely to continue to climb. The manufacturing sector tends to be one of the most cyclical and just as we saw steep declines in employment during the recession, this sector is likely to experience above-average increases in the recovery. But as we have always seen, new industries and new types of jobs are likely to emerge as the economy resumes growth. The geographic regions that are most likely to benefit are those that are most attractive to new businesses either in terms of talent pool or supportive infrastructure. Thus, the cities with the greatest potential to expand in the recovery will be those that have a diverse, educated work force that can adapt to new growth areas as they arise.

Real Estate Implications. This recession did not hit all real estate markets equally. Some saw very little change in vacancy and rents while others saw huge increases in vacancy and steep drops in rent. In general, the markets that saw substantial employment loss, a large increase in new supply, or some combination of the two also experienced a large increase in vacancy from the December 2007 national vacancy trough. For example, Miami, one of the cities with the largest job loss, saw its vacancy rate increase from 11.1% to 19.6%. Phoenix experienced the largest employment decline of all the cities we tracked. During the past 12 months, the vacancy rate in Phoenix increased 8.8 percentage points, from 14.6% to 23.4%.

A CUSHMAN & WAKEFIELD RESEARCH REPORT

Overall national real estate markets are in better shape than one would anticipate given the sharpest decline in employment in more than 70 years. Yet the national vacancy rate is below the last peak in 2003 and far, far below the level of the early 1990s.

In the coming years as recession gives way to recovery across the nation, vacancy rates will shift from rising to falling. But that shift is likely to be modest at first as businesses backfill existing space before increasing occupancy. Nevertheless as employment rises, space will be absorbed off the market and vacancy rates will begin to decline. Those cities that experienced moderate employment declines have the best potential for growth.

Such markets have weathered the storm remarkably well and are ready to expand as the economy comes back. Cities with large losses that generally have less diverse economies and heavy concentrations in manufacturing and construction are likely to have more difficulty achieving consistent declines in vacancy. Of course, the supply of new office space coming to the market will also bear on the direction of vacancy rates. In most locations, construction did not surge going into the recession and there is little overhang of in the market. Nationally, new construction completions in 2009 represented only 1.3% of total inventory, compared with 3.2% in 2001 at the end of the last recession. But there are some exceptions. Seattle for example is completing enough construction to increase its inventory by 10%, causing its vacancy rate to shoot up from 12.6% a year ago to 21.4% today.

Overall national real estate markets are in better shape than one would anticipate given the sharpest decline in employment in more than 70 years. Yet the national vacancy rate is below the last peak in 2003 and far, far below the level of the early 1990s. This performance suggests that markets will emerge from this recession in better shape than in either 2003 or the 1990s. Conditions in the US are being mirrored elsewhere in the Americas, though the US felt this recession more than in other regions.

Canada: Canada's economy is likely to grow faster than Western Europe, Japan and the United States in the coming year. Driven by the strength of its domestic engines, particularly in the financial sector in central Canada and a moderate recovery in commodities, which is fueling business activity across Western Canada, GDP growth is anticipated to reach 3% in 2010. Employment growth has been moderate yet positive in the past seven months, with March 2010 alone posting 17,900 new jobs.

Central Business Districts in many markets began stabilizing in the third quarter of 2009, much earlier than initially expected. However, vacancy continued to push upward in Calgary and Toronto, mainly as a result of new supply. Additionally, all markets have been impacted by a return of space, largely due to a high number of acquisitions and consolidations.

Weak natural gas prices, which have heavily influenced demand in Calgary, have been partially offset by higher-than-expected oil prices, hovering above $80 per barrel. A strong financial sector has stabilized central Toronto, the federal government has anchored Ottawa's market, a general rise in commodity prices has supported the Vancouver market and central Montreal has benefited from its greater reliance on local demand for office space.

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According to economists, Brazil's foreign direct investment is expected to grow by 47% in 2010, reaching $38 billion. Infrastructure development ahead of the FIFA World Cup in 2014 and Olympic Games in 2016 are main economic drivers.

Suburban markets have been much harder hit than CBDs, with the overall vacancy rate at 10.7%, up from 10.4% one quarter ago. Suburban markets generally have closer links to US business activities and some sectors, such as call centres, were heavily impacted by the downturn, and in some cases business units were relocated out of Canada in 2009.

Overall, Canadian markets have fared much better than global counterparts. CBD vacancy rates in Canada averaged 7.4% in Q1 2010 as compared to an average across US markets of 14.7% in Q4 2009. The overall vacancy rate in Canada was 8.8% as compared to an average vacancy rate in APAC of 10.6% and an average vacancy rate across European Markets of 12.3%.

Latin America: In general, Latin America countries are experiencing strong economic recovery. Strong macroeconomic parameters are attracting more investors to the region; indeed, due the recent credit fears in Greece and Dubai, Latin America sovereign credit may become increasingly attractive to foreign investors.

Brazil: Brazil seems to be poised for a successful first quarter in 2010 and possibly an outstanding year. General sentiment abroad and locally is extremely positive. According to economists, Brazil's foreign direct investment is expected to grow by 47% in 2010, reaching $38 billion. Infrastructure development ahead of the FIFA World Cup in 2014 and Olympic Games in 2016 are main economic drivers.

Brazil, which posted -0.6% GDP growth in 2009, is expected to reach 5% in 2010. Consumer price inflation tracked by Central Bank, IPCA is expected to reach 4.6%, - .3 points lower than in the previous year. The index came in at 4.8% year-over-year in February, exceeding the bank's 4.5% target.

Signs of a robust recovery in the economy are now appearing across the majority of sectors, reflected in the labor market. Job creation reached a January high of 181,419 with strong gains in manufacturing (68,920), services (57,889) and civil construction (54, 330). The official unemployment rate is now one percentage point lower than one year ago, coming at 7.2% in January.

Mexico City: In general, Mexico City fared quite well all things considered during the crisis. Property prices were not significantly reduced, and the majority of the developers performed relatively well with their loans, with of course some exceptions.

Monterrey: This northern city in is well positioned for manufacturing, and we expect a lot of activity in the next months. Monterrey is very near the US border and doesn't have the security problem that other border cities are facing. Also the peso was devaluated in the range of a 30%, which presents a good opportunity for companies exporting products, and for those with labor-intense operations.

The markets that were affected the most were those that rely heavily on tourism, not only because the global crisis, but also because the influenza situation that Mexico suffered in May of last year. Cities like Cancun, Puerto Vallarta and "Los Cabos" in Cabo San Lucas experienced hotel occupancies in the range of 20% compare to the usual rates of 70%.

CONCLUSION

The 2008-09 recession had disparate and unexpected impacts across the Americas. Many cities in the US were very severely impacted, especially those with high concentrations of employment in manufacturing and those that were closely tied to the housing sector and, therefore, saw substantial employment declines. There were some positive surprises too, particularly in those areas where the financial services industry has a strong presence.

Going forward, commercial real estate in the US is in much better condition than one would expect given that the nation just experienced the worst recession in 70 years. Relatively low vacancy compared to previous recessions suggests that the industry will also recover more quickly than expected.

But, of course, all real estate is local. What happens in one city will be very different than that in another. While the overall national market is likely to see improvement probably beginning late this year, some markets are already showing signs of improvement, and others will lag. In general, the markets that went down the furthest will take the longest time to show healthy recovery.

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