

Economic Overview and Perspectives on the U.S. Real Estate Market

2005

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San Francisco, CA

The logo for Colliers International, featuring the company name in white serif font on a dark blue square background. Below the square are three horizontal stripes in yellow, blue, and red from top to bottom.

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Economic Overview and Office and Industrial Market Fundamentals

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- The Economy
 - National
 - Metro
- Office Space Market
- Industrial Warehouse Market
- Investment Market
- Ross' Crystal Ball
- Global Overview

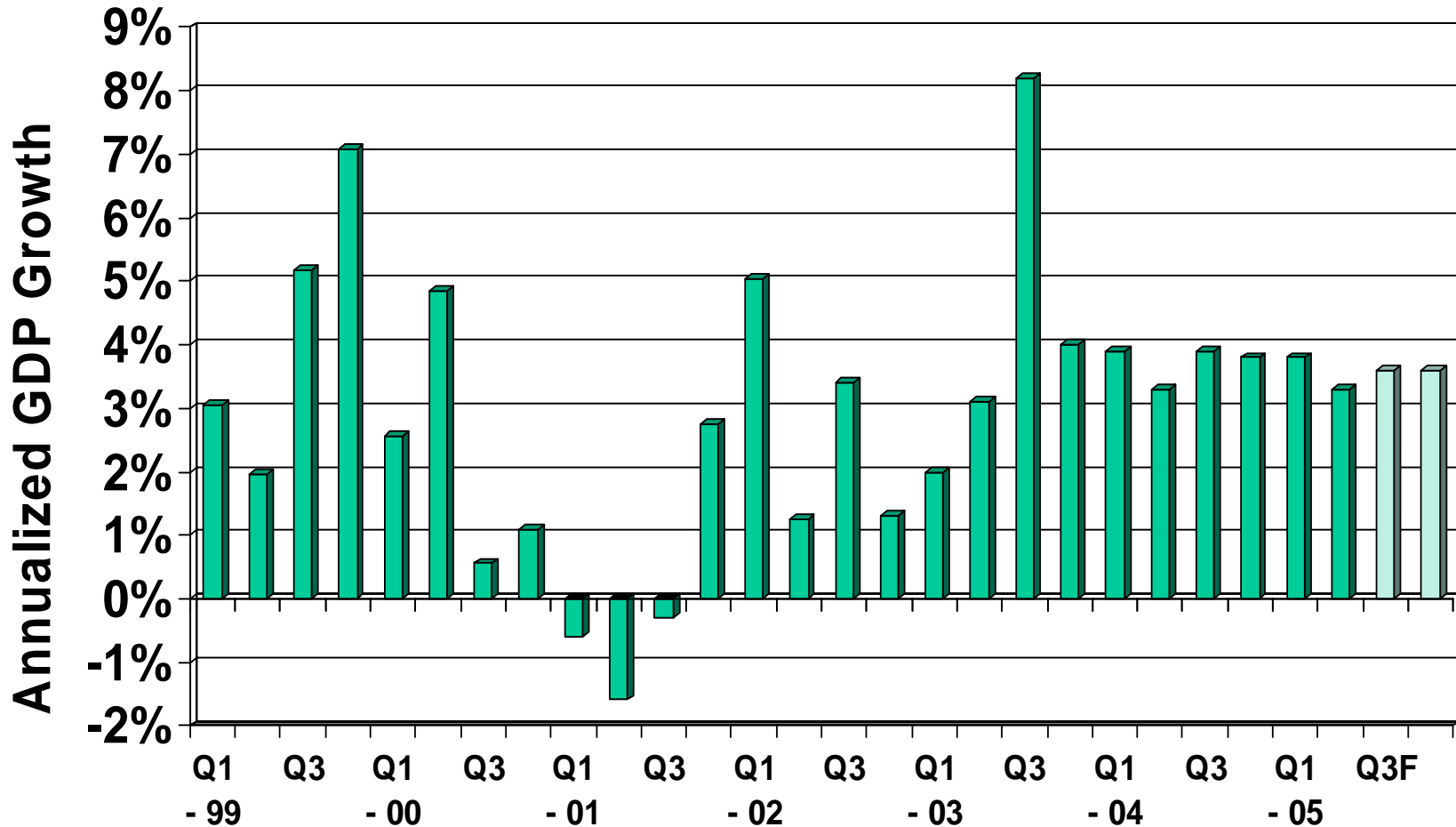
Central Themes

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- Things are pretty good – even post-Katrina
- Leasing markets continue to accelerate
- Lots of investment capital still searching for CRE
- Companies sitting on lots of \$ - watch for M&A's and expansion
- Energy prices while high, don't appear to be derailing the economic recovery

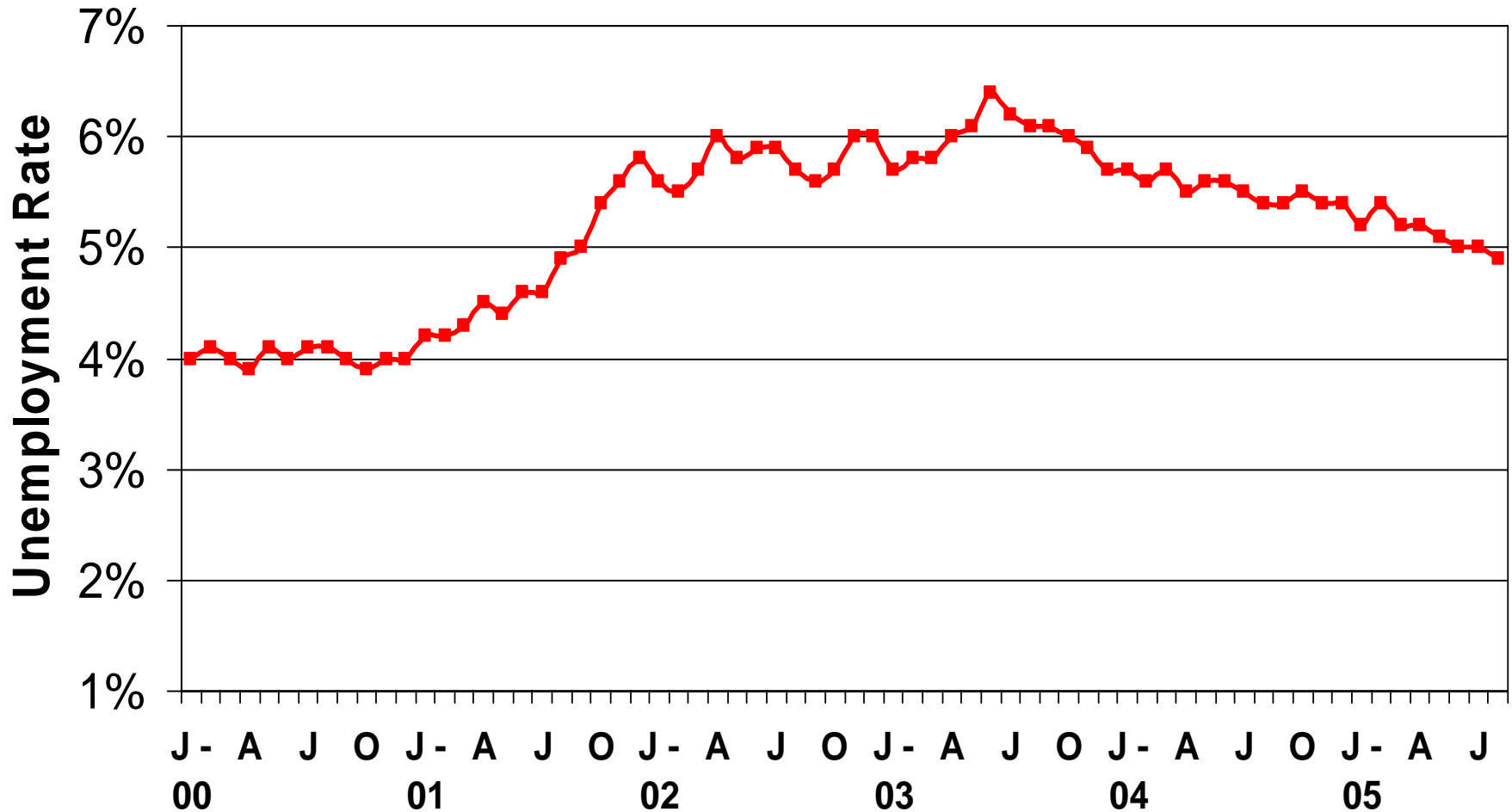
Q2 GDP Growth of 3.3% Broadly on Target - Balance of 2005 Expected to Show Same

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August Unemployment Rate Down to 4.9%. – Back to August 2001 Levels

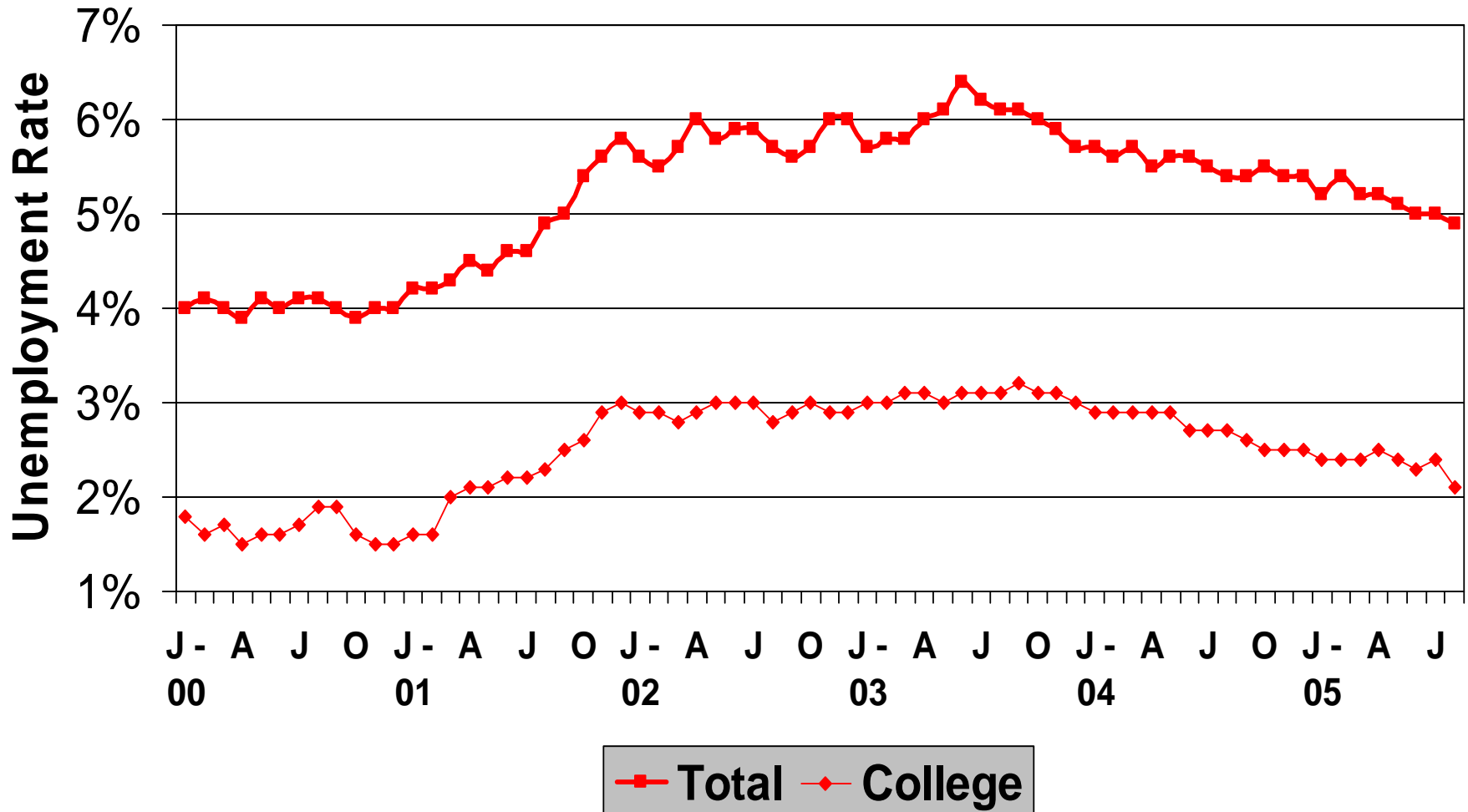
2005
Colliers International



Source: BLS

Getting Harder to Hire Someone With a College Degree!

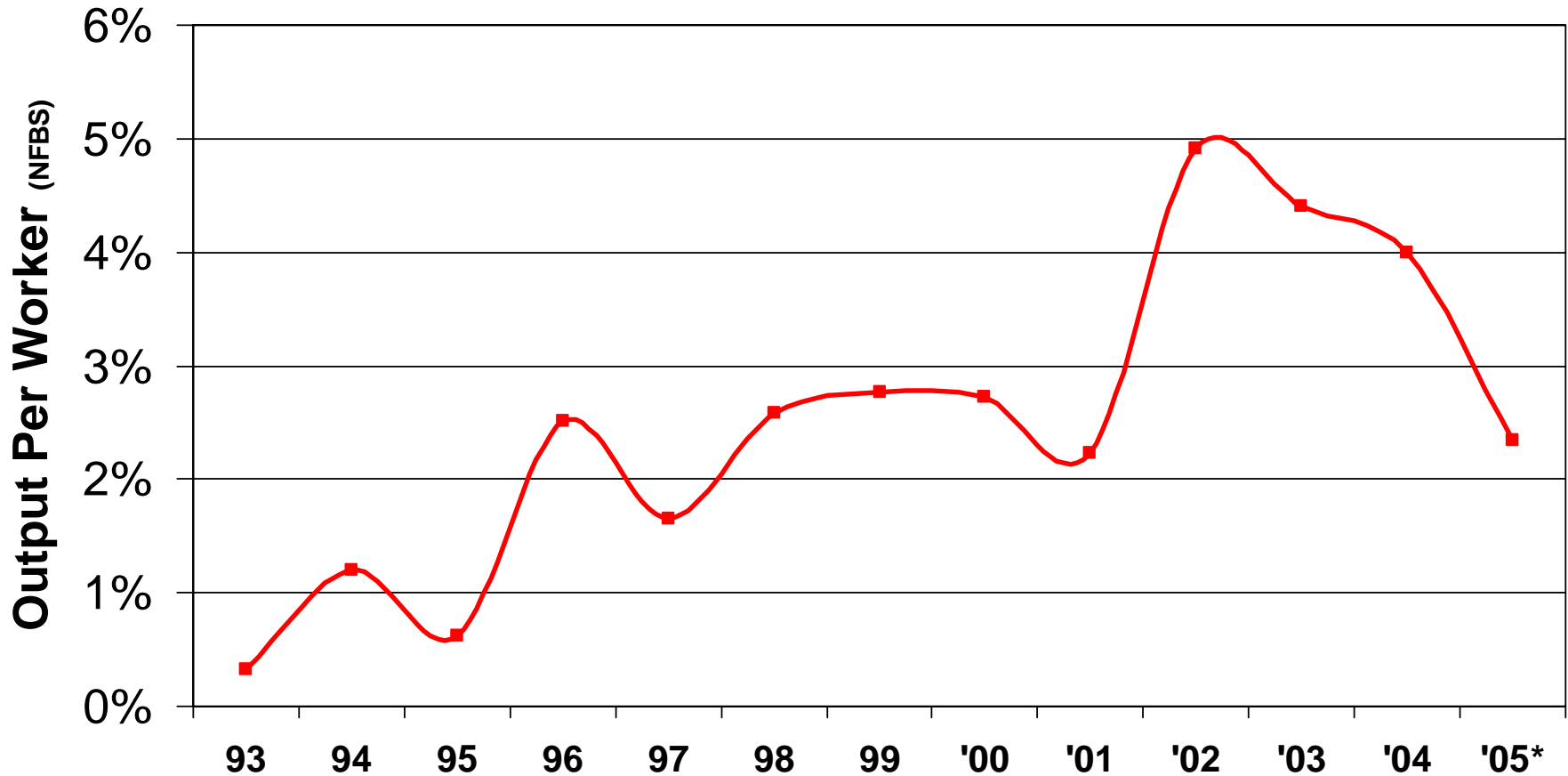
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Source: BLS

Productivity – 55 Year Average (2.3%)

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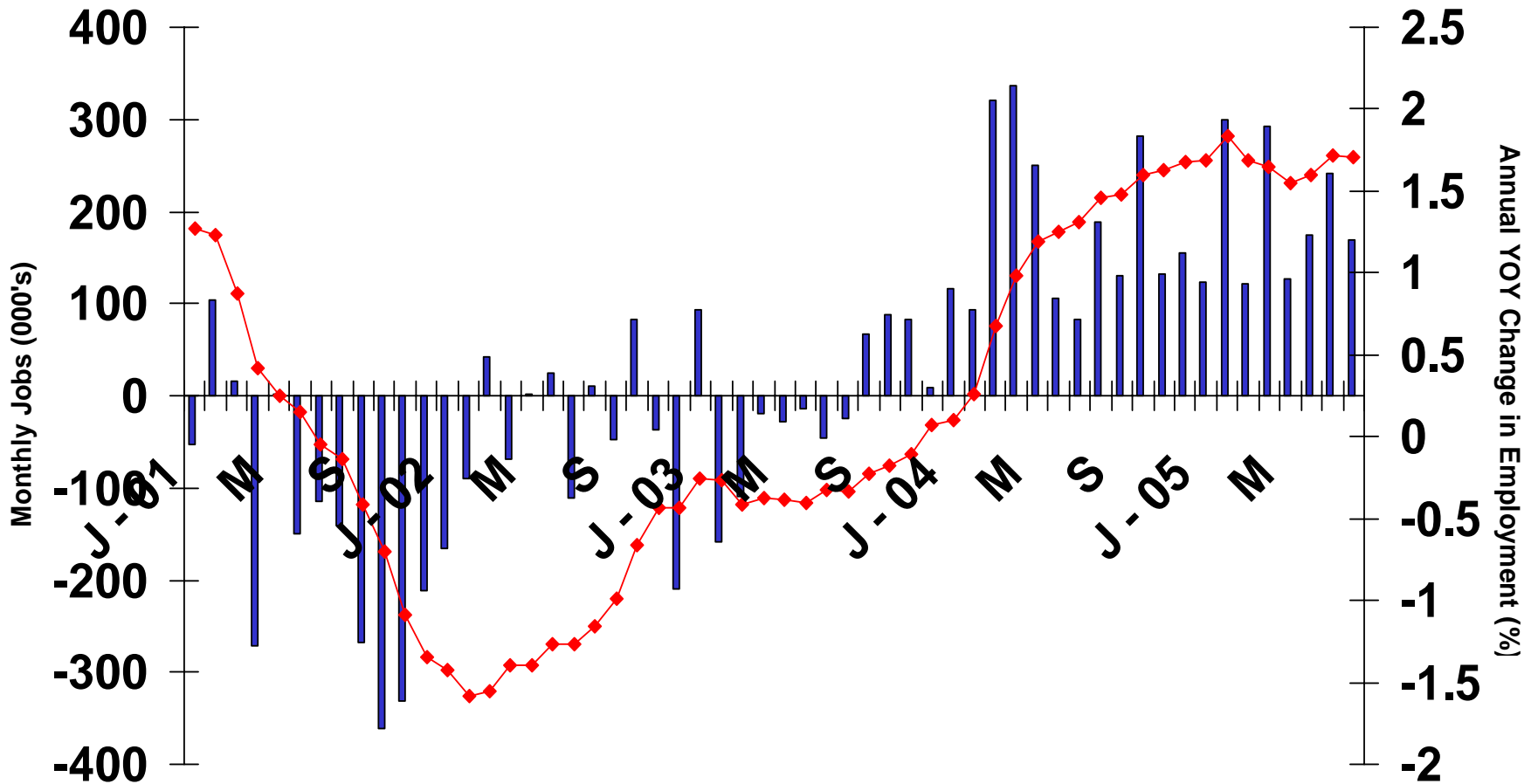
* Average for Q1 & Q2 2005

Source: BLS

169,000 Jobs Created in August – Employment growing at 1.7%

2005

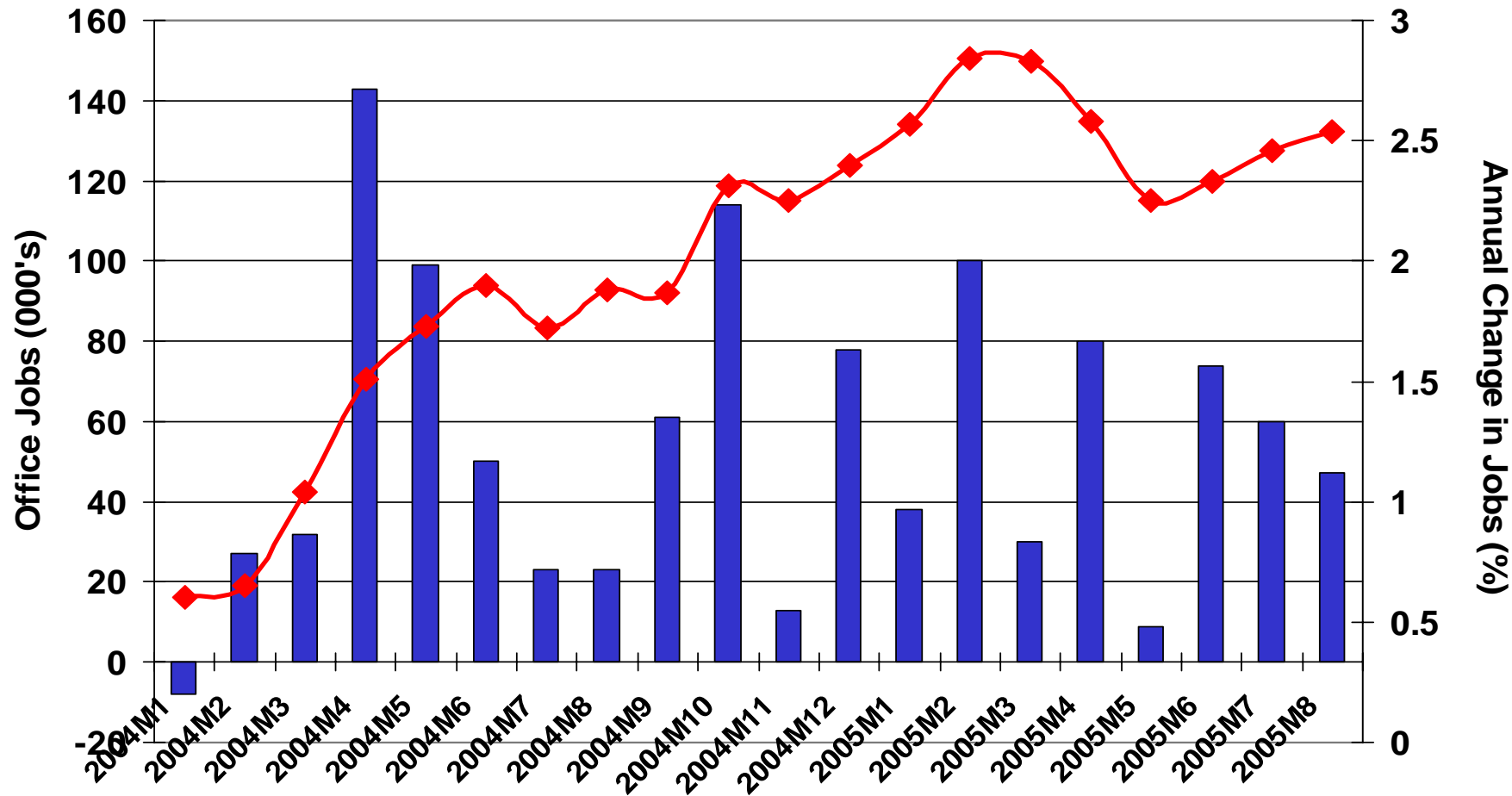
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Source: BLS

Office Jobs Showing Slowing Trend, But Still Posting 2.5% Growth Rate

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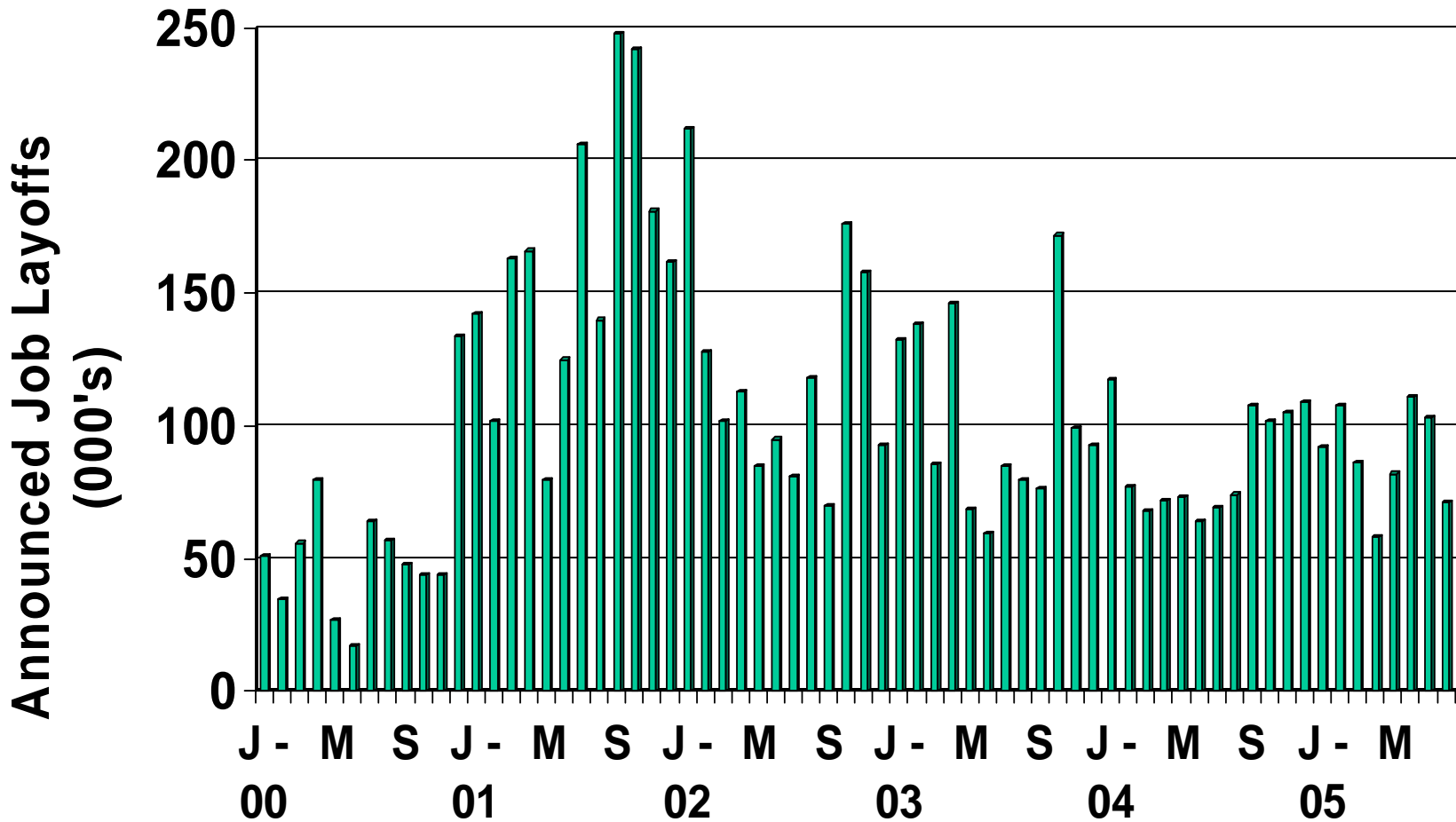


Office Jobs = Information, Financial Activities, Professional & Business Activities

August Layoffs Moderate to 71,000

2005

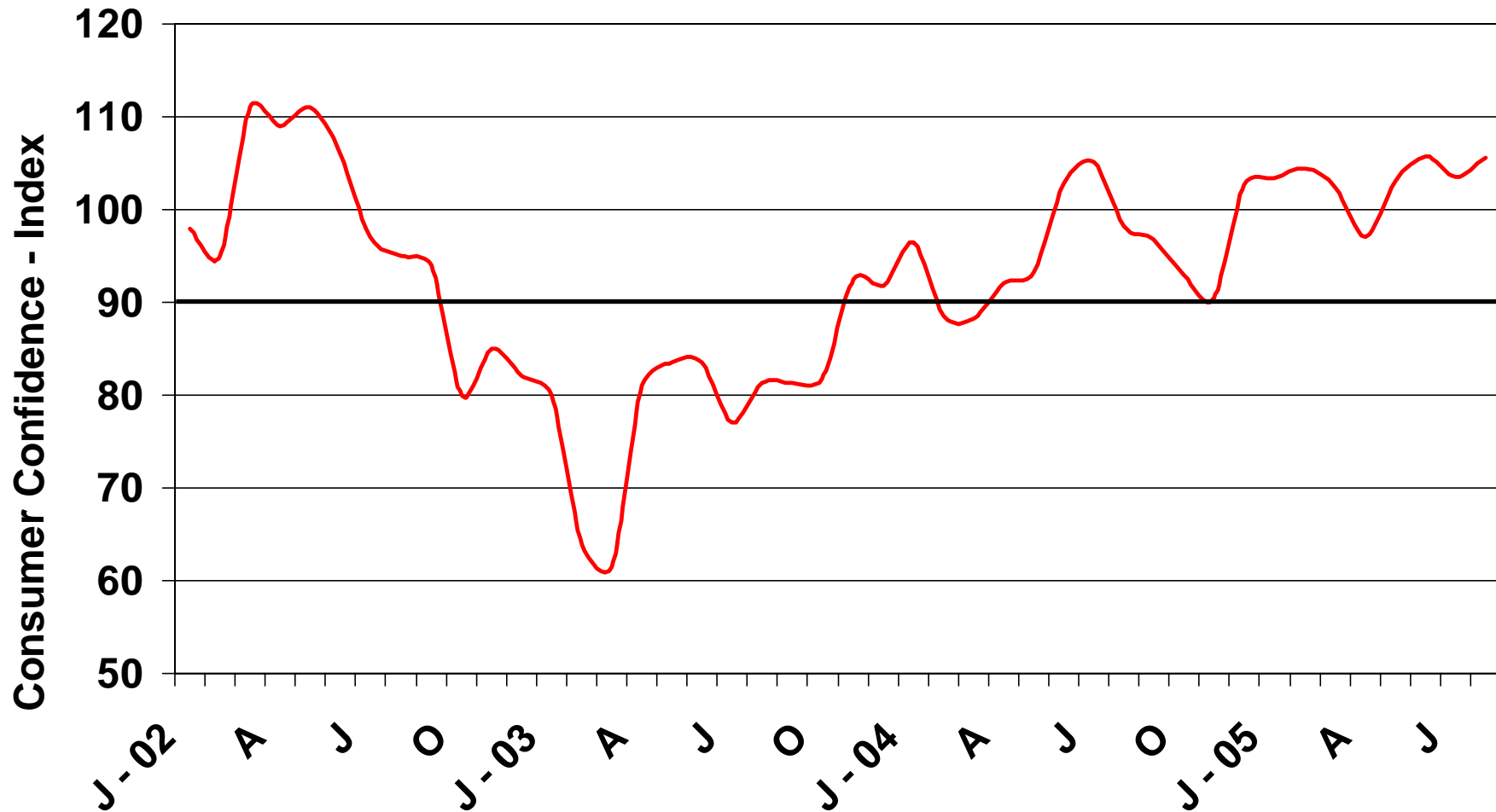
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Source: Challenger, Grey & Christmas

August Reading Up Despite Higher Oil/Gas

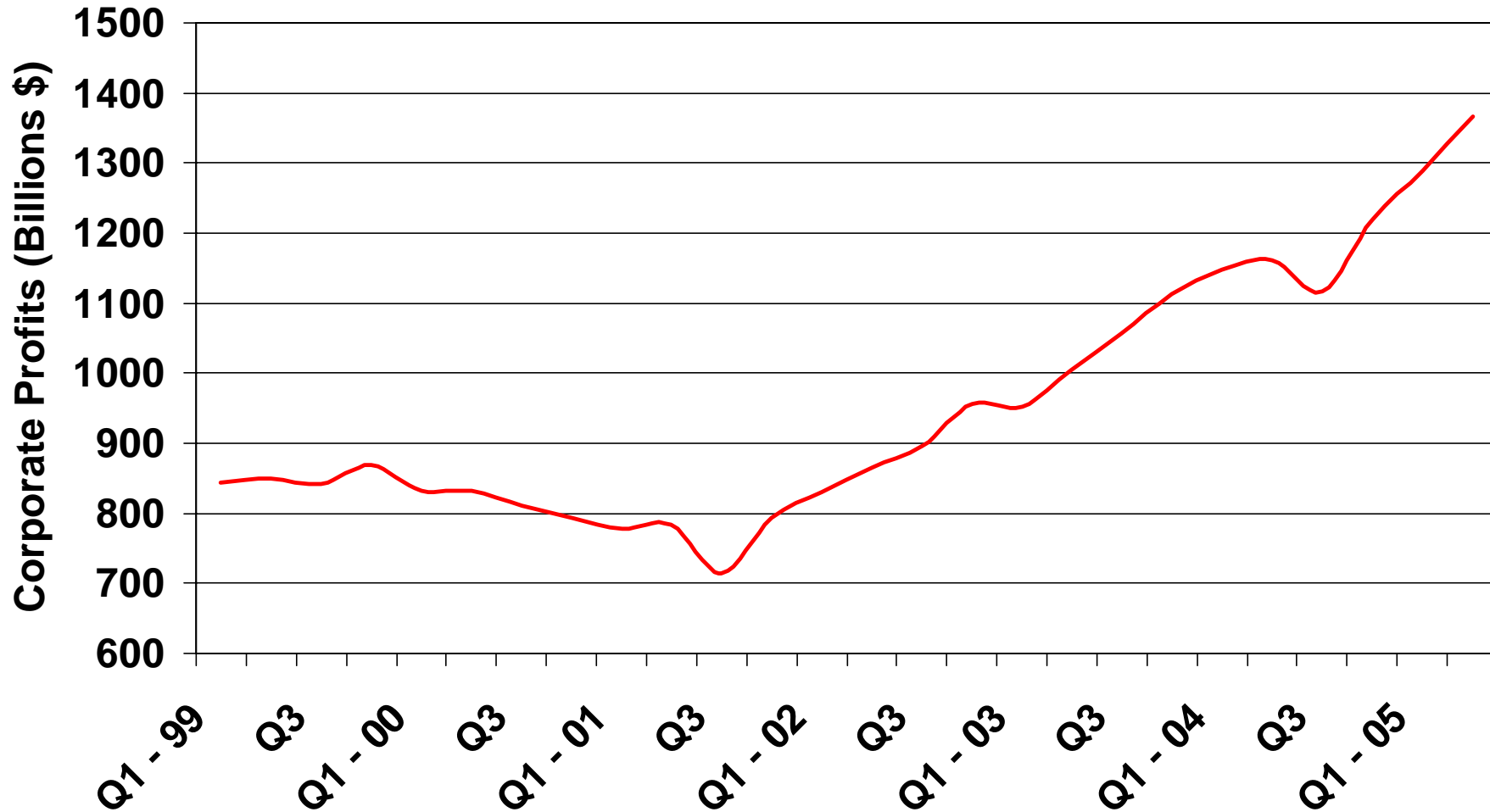
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Source: Conference Board

Corporate Profits Back in Double Digit Territory in Q2 with 17.6% increase YOY

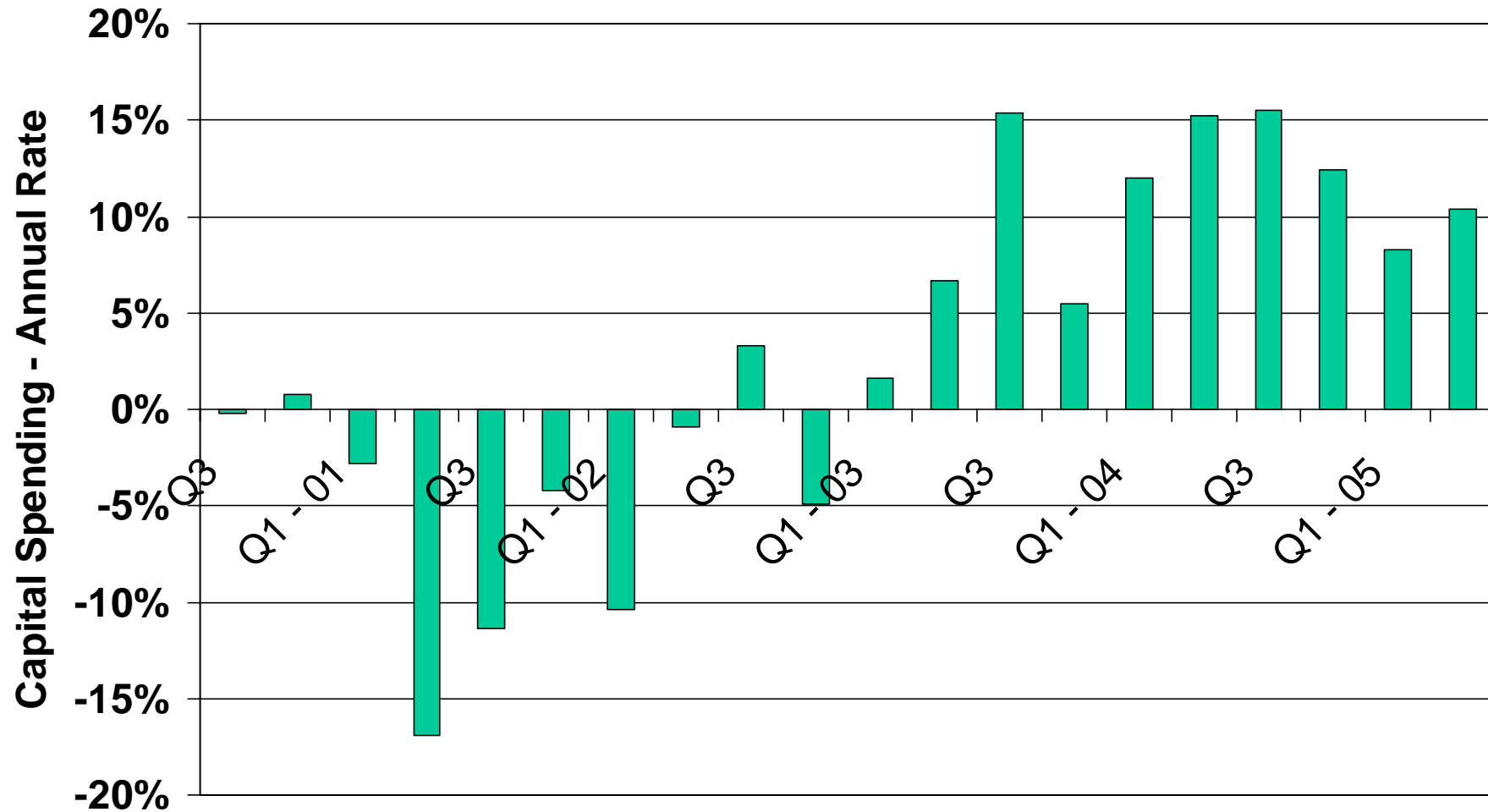
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Source: Commerce Dept

Capital Spending Positive for 10th Straight Quarter

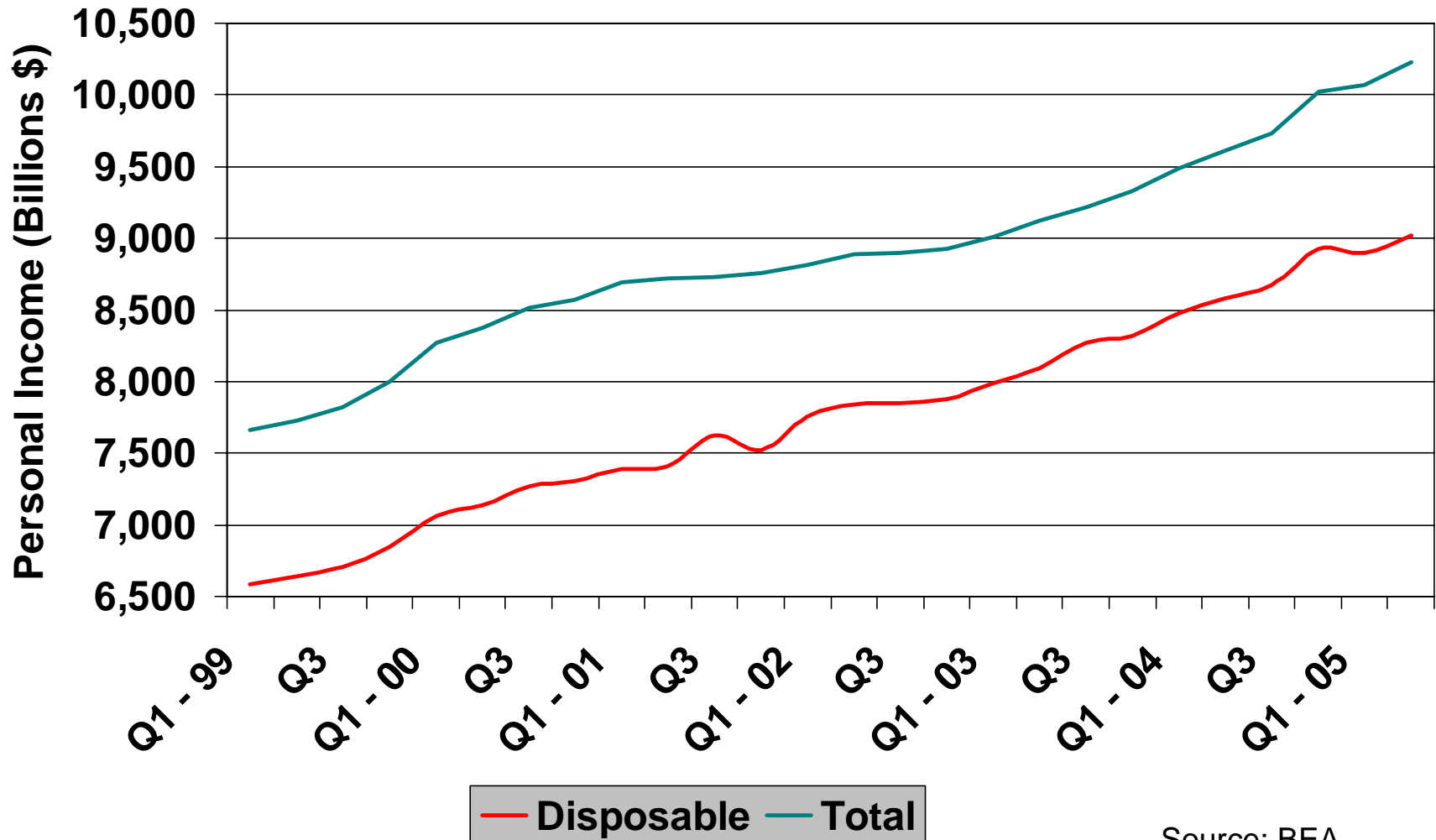
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Source: BEA (Equipment & Software)

Q2 Disposable Income Rises 5.1% YOY, Marginally up From 5.0% in Q1

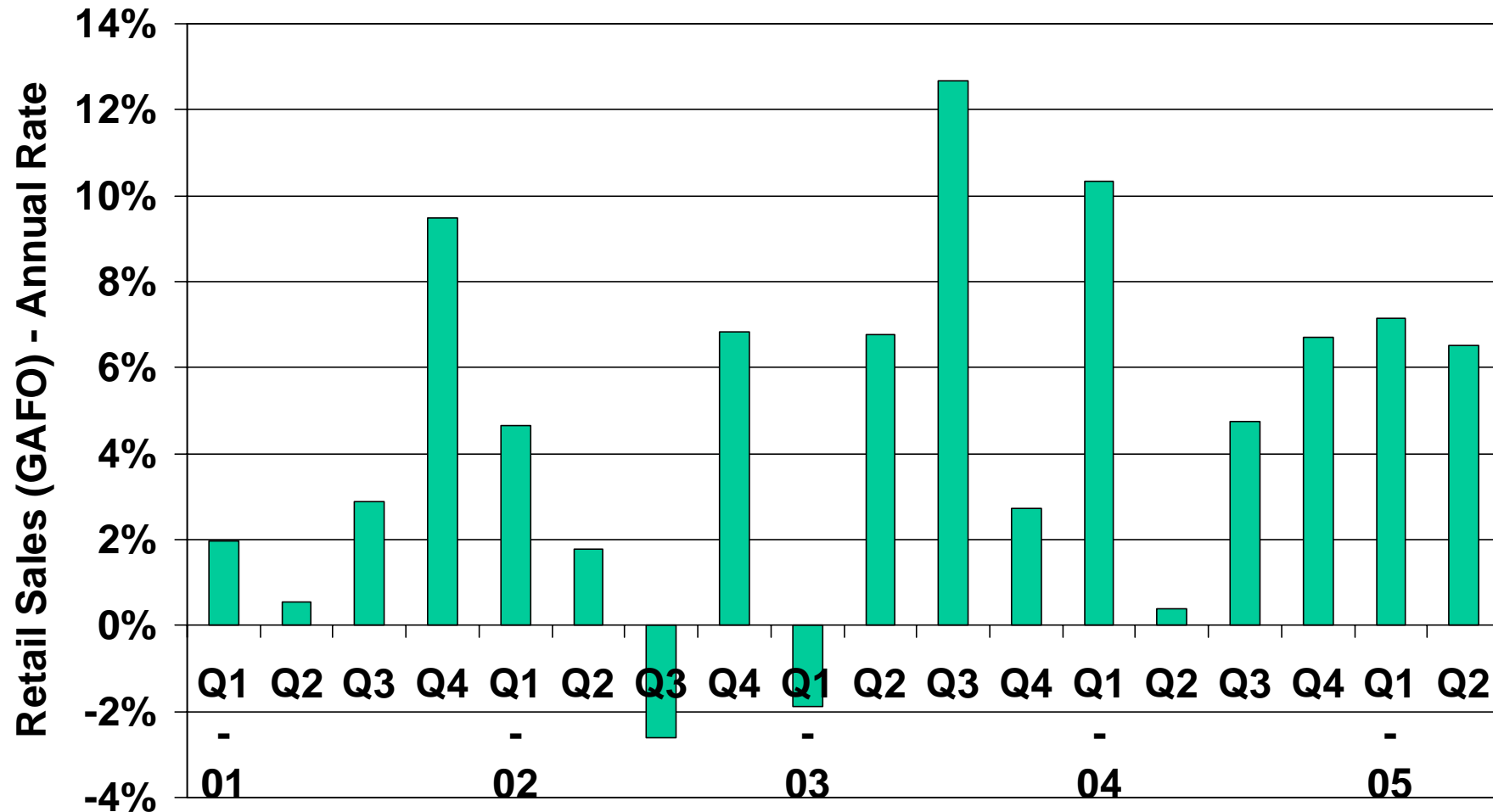
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Source: BEA

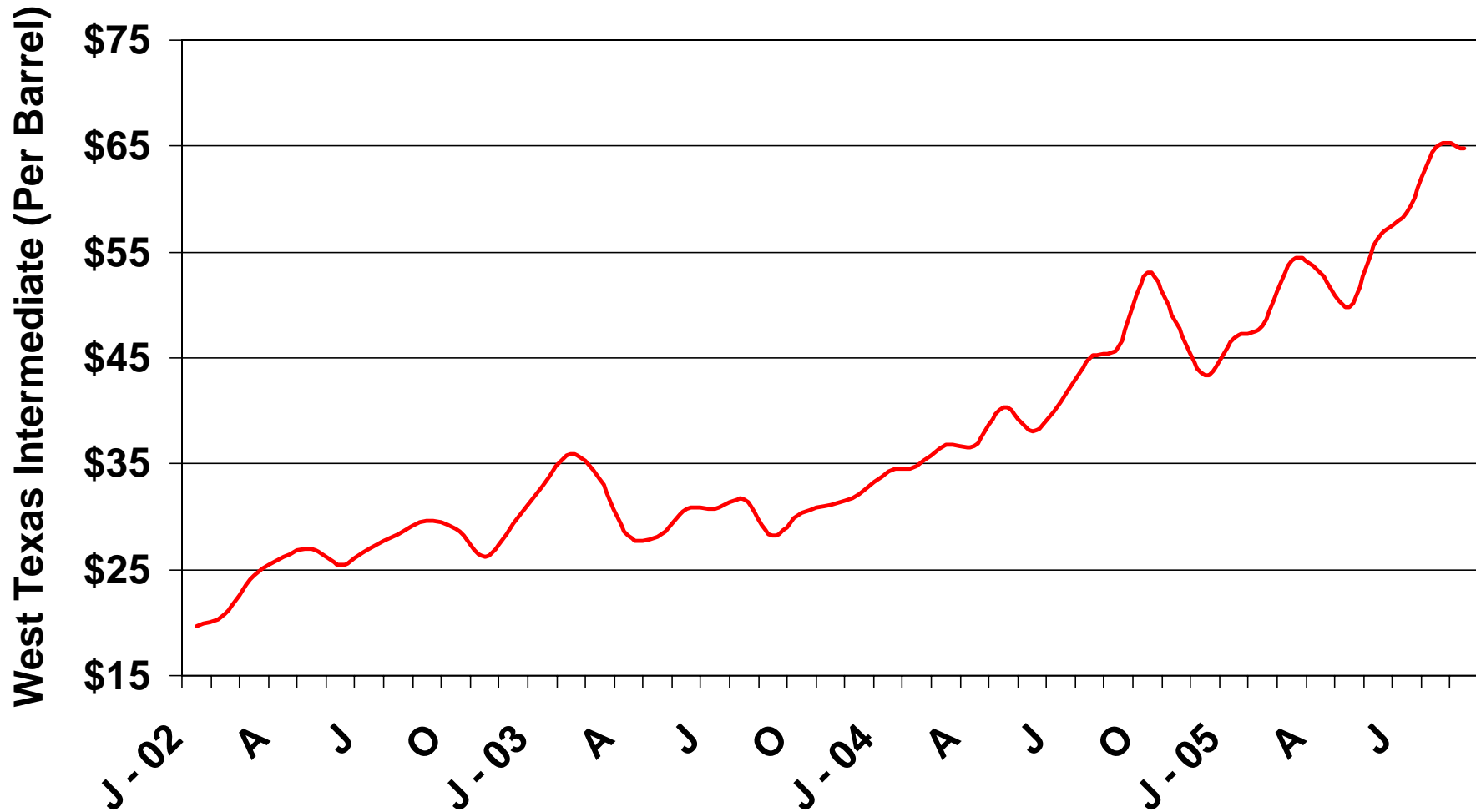
Retail Sales Post 6.5% Growth Rate in Q2

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\$50+ Oil – How Much Longer? Seven Months and Counting

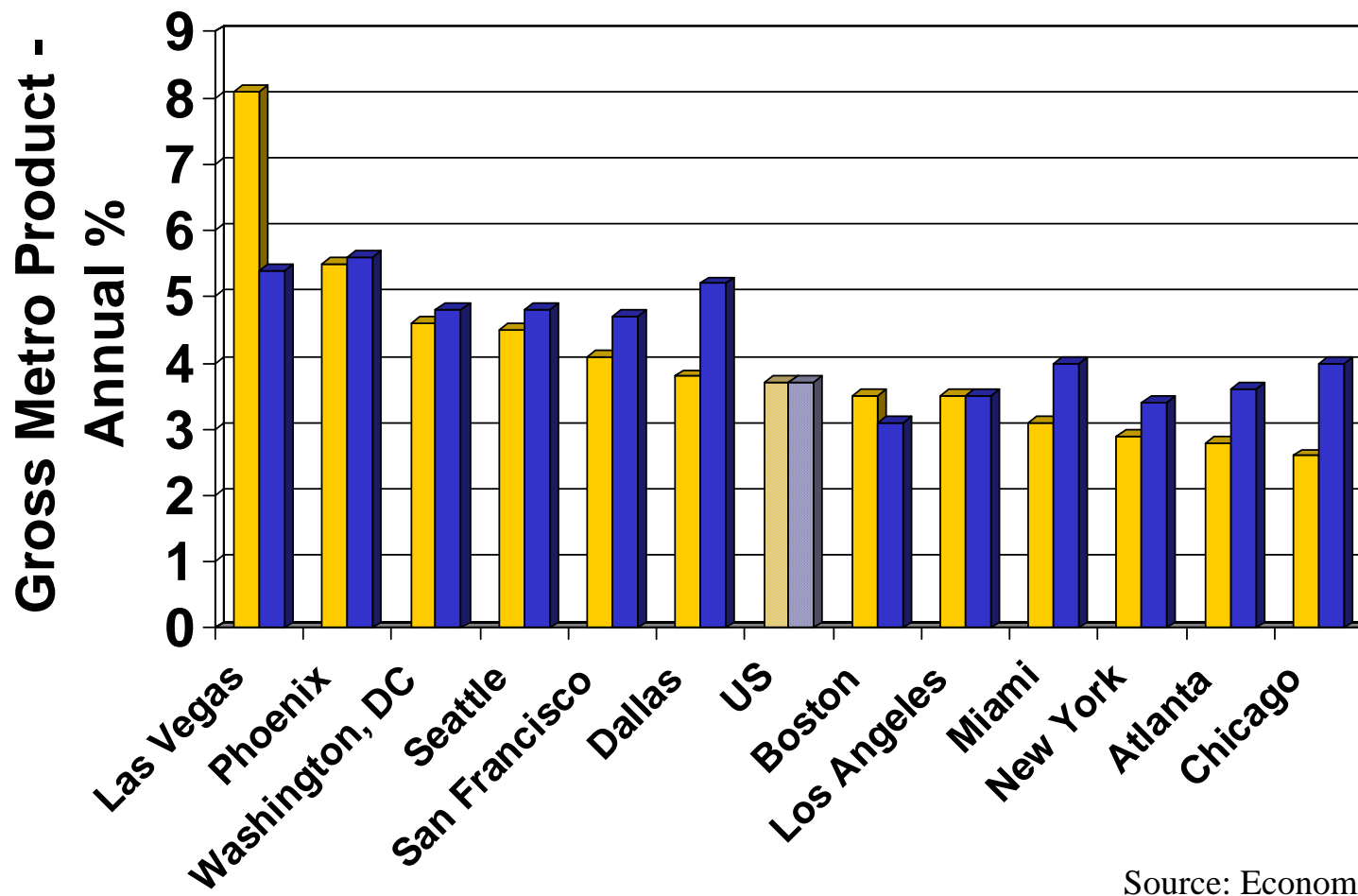
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Source: Economy.com

A Number of Cities Set to Break the 4.0% Speed Barrier in '05

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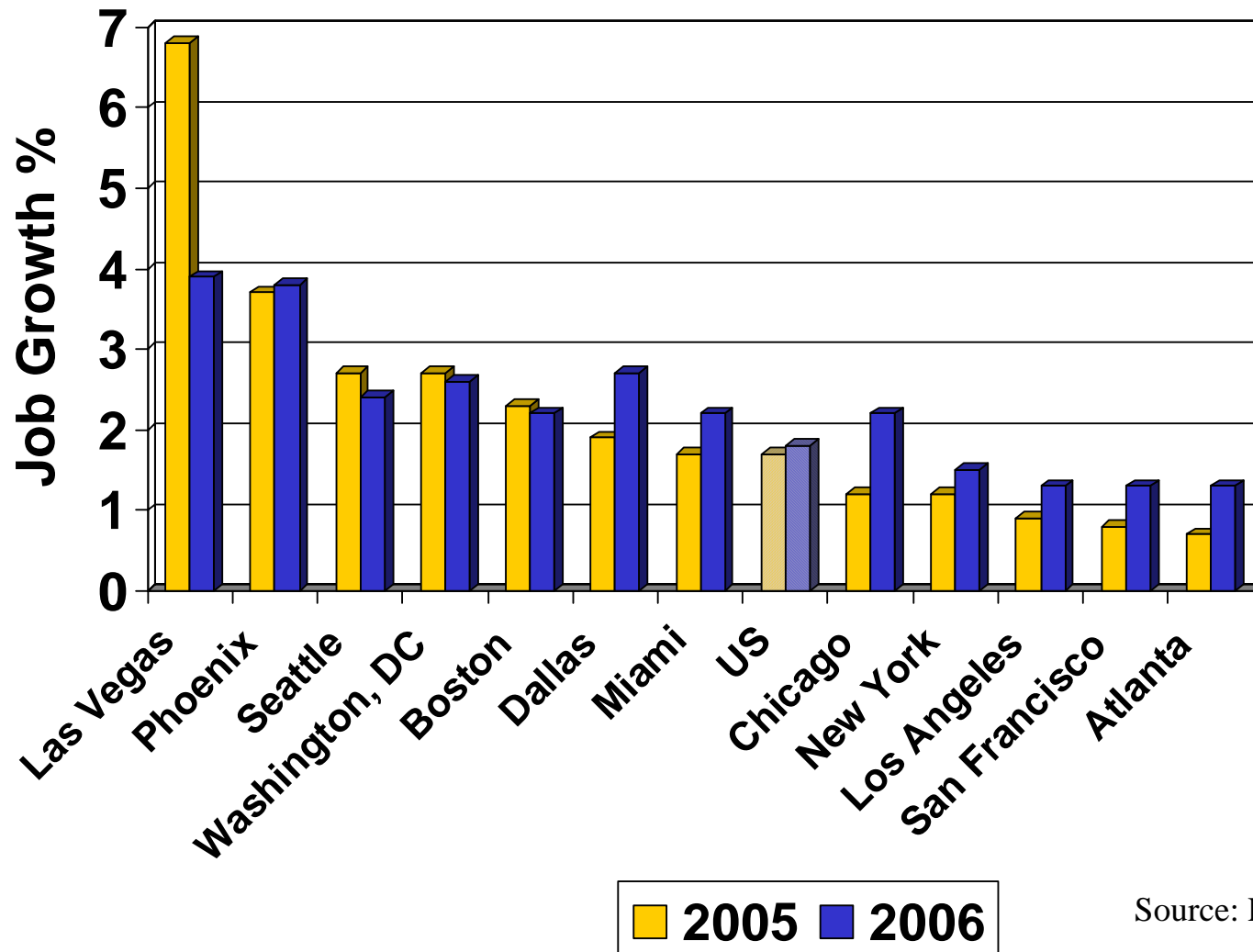
Source: Economy.com

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Many Big Cities Still Under the National Average

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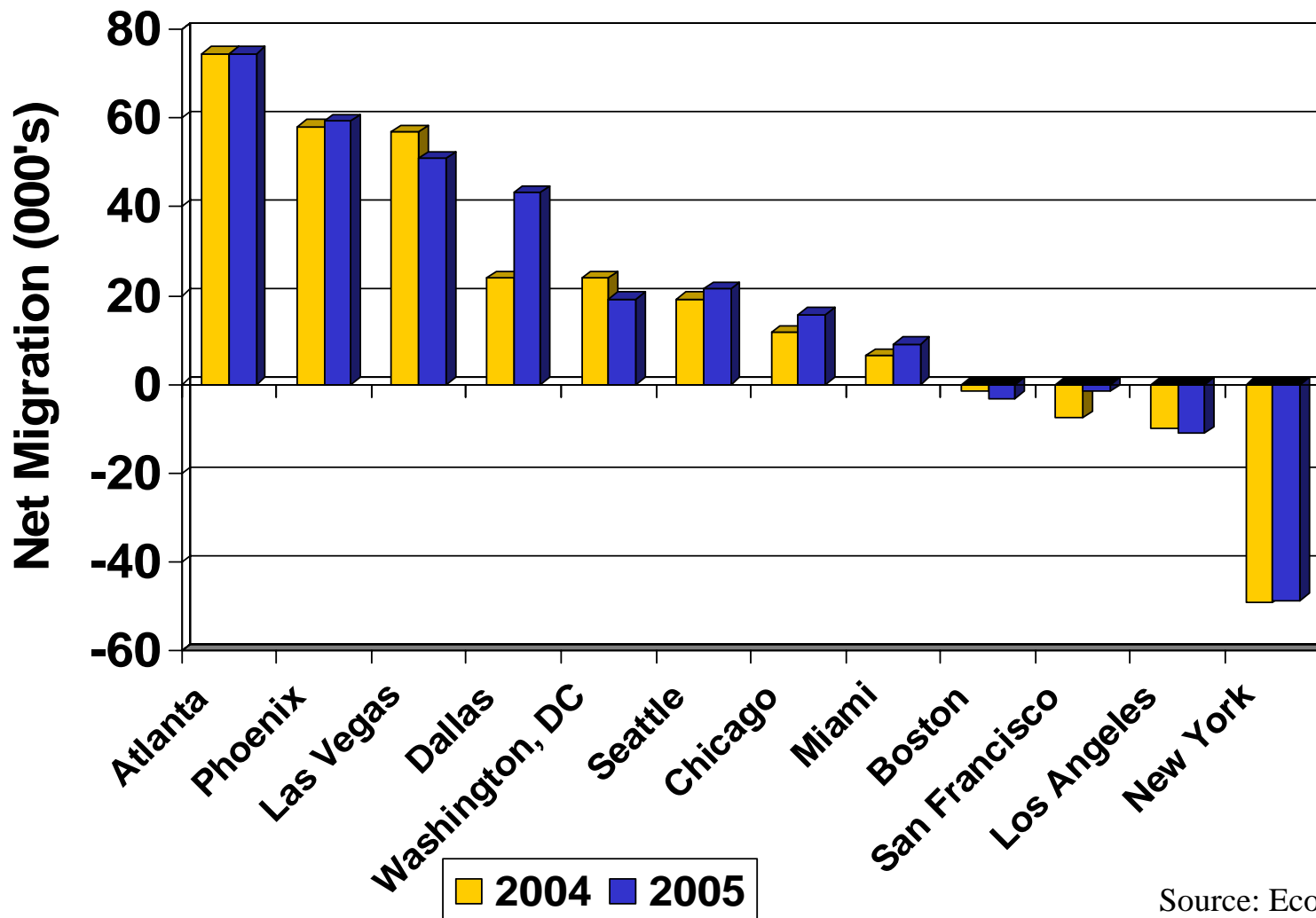


Source: Economy.com

Migration Flows Still Concentrated in AZ, FL, GA, TX and NV

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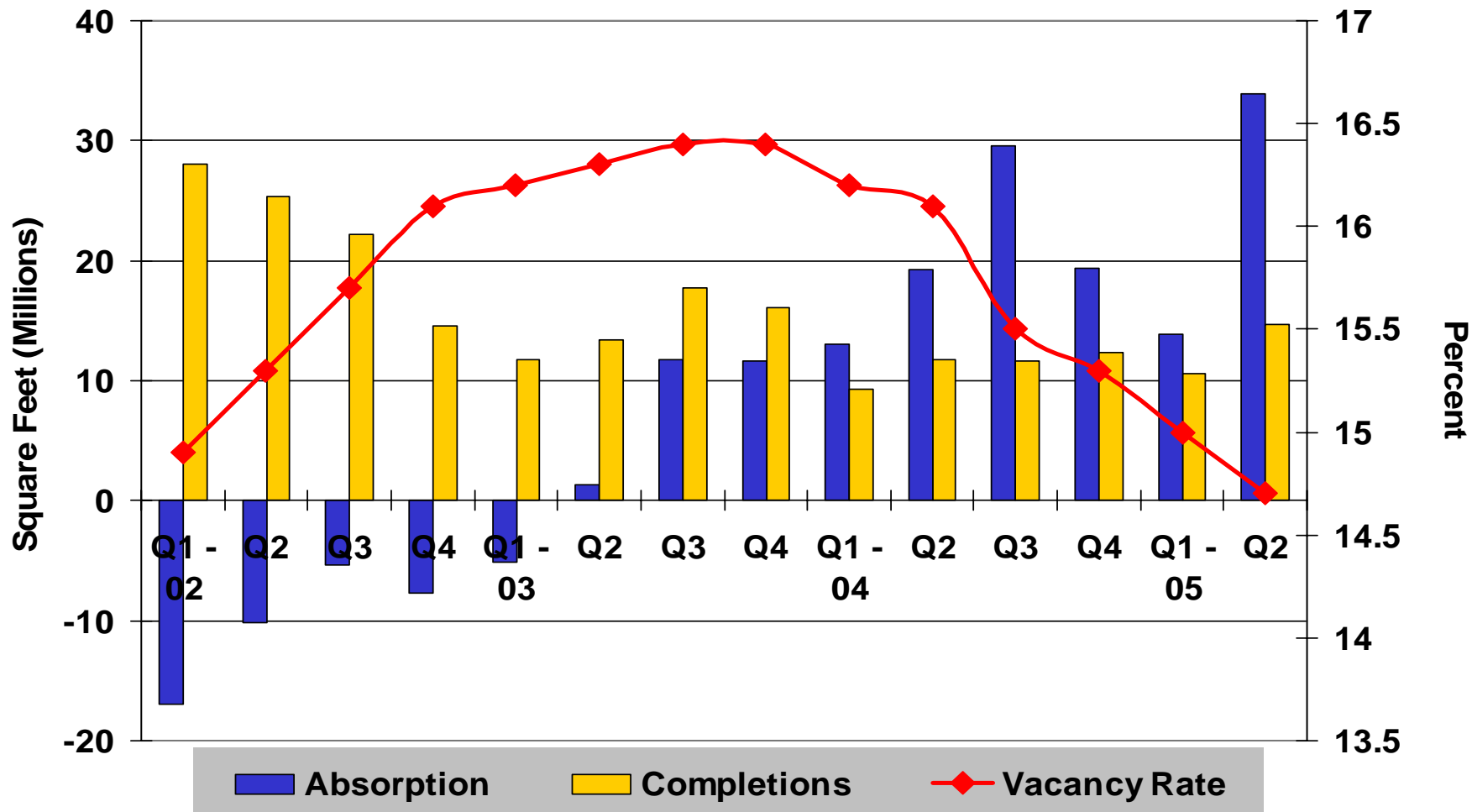
Source: Economy.com

U.S. Office Real Estate – A Snapshot

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- Office vacancy rate decreased by 30 basis points during Q2 to 14.7% (DT – 14.2%, Sub – 14.9%)
- Vacancy rate to landlords 12.9% (excluding sublease space)
- Q2 absorption registered 33.9 MSF, (13.9 in Q1) 79.6 in 2004
- Q2 new construction registered 12.6 MSF (10.6 in Q1) 43.5 in 2004
- Sublease space down to 11.7% of vacant space
- Rents up – CBD 4.4% and suburban 1.6% YTD

National Vacancy Rates Falls Below 15%

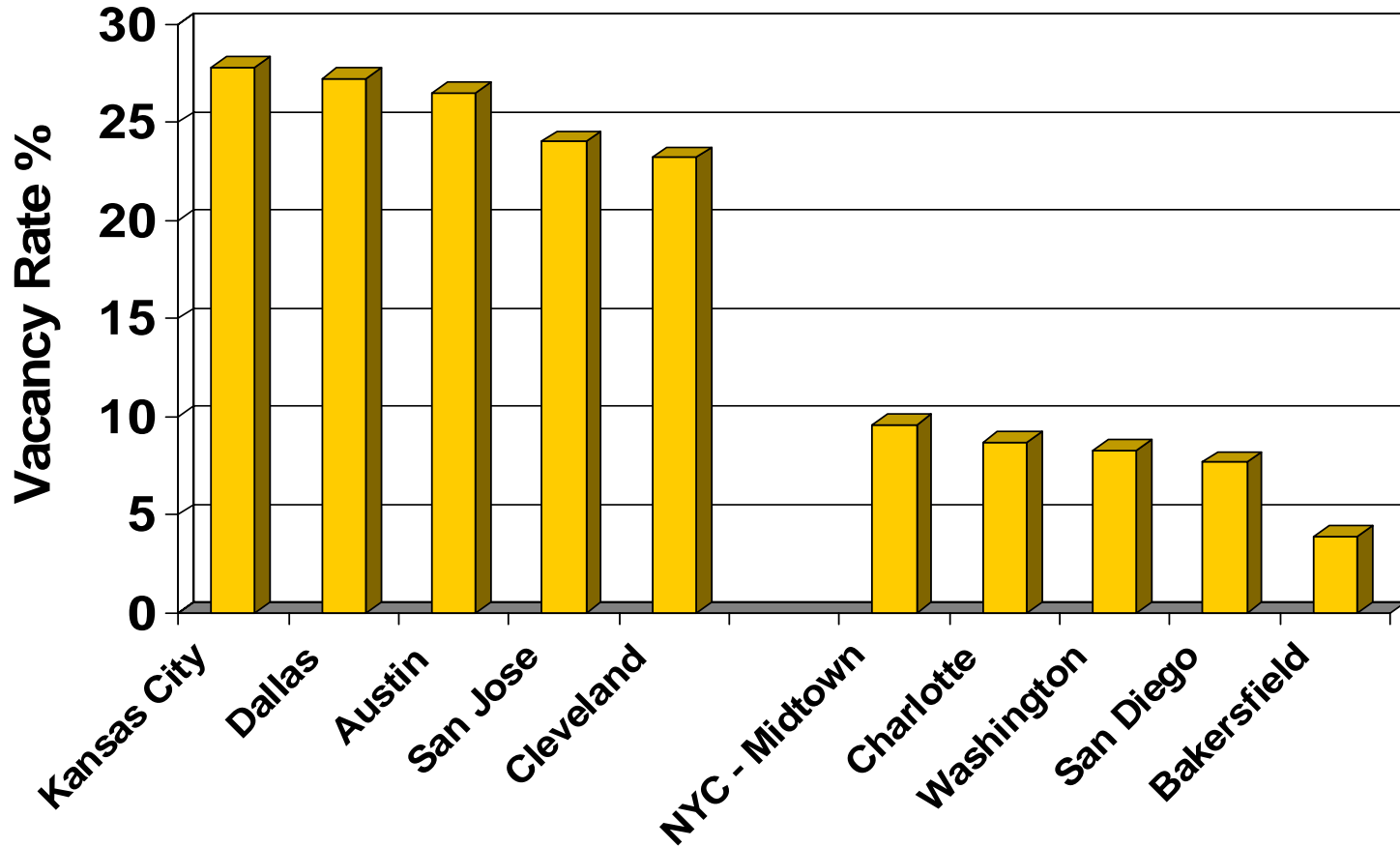


Top Five – Bottom Five

Downtown Office Vacancy Rates - June 2005

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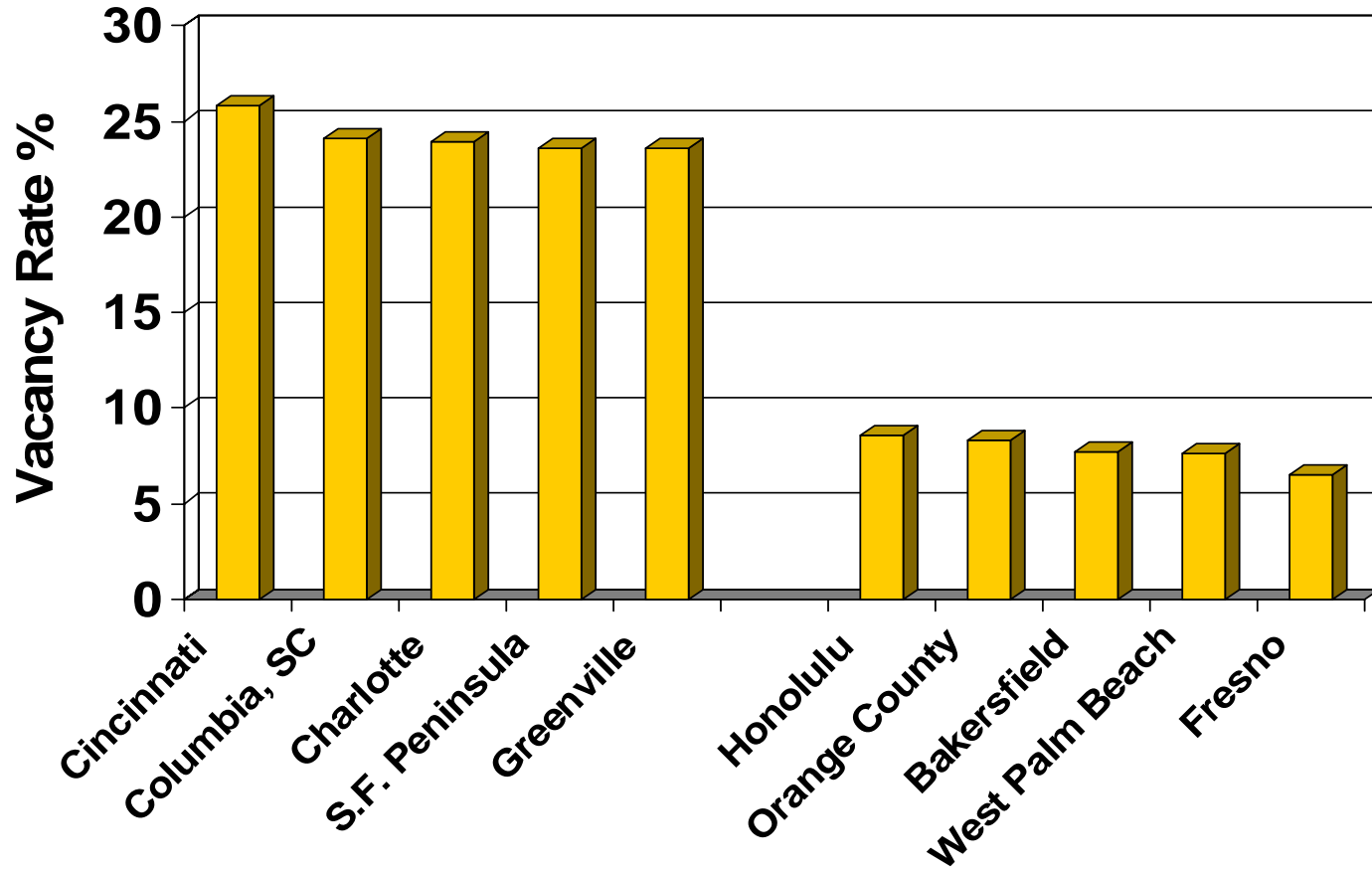


Top Five – Bottom Five

Suburban Office Vacancy Rates - June 2005

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Who is taking space?

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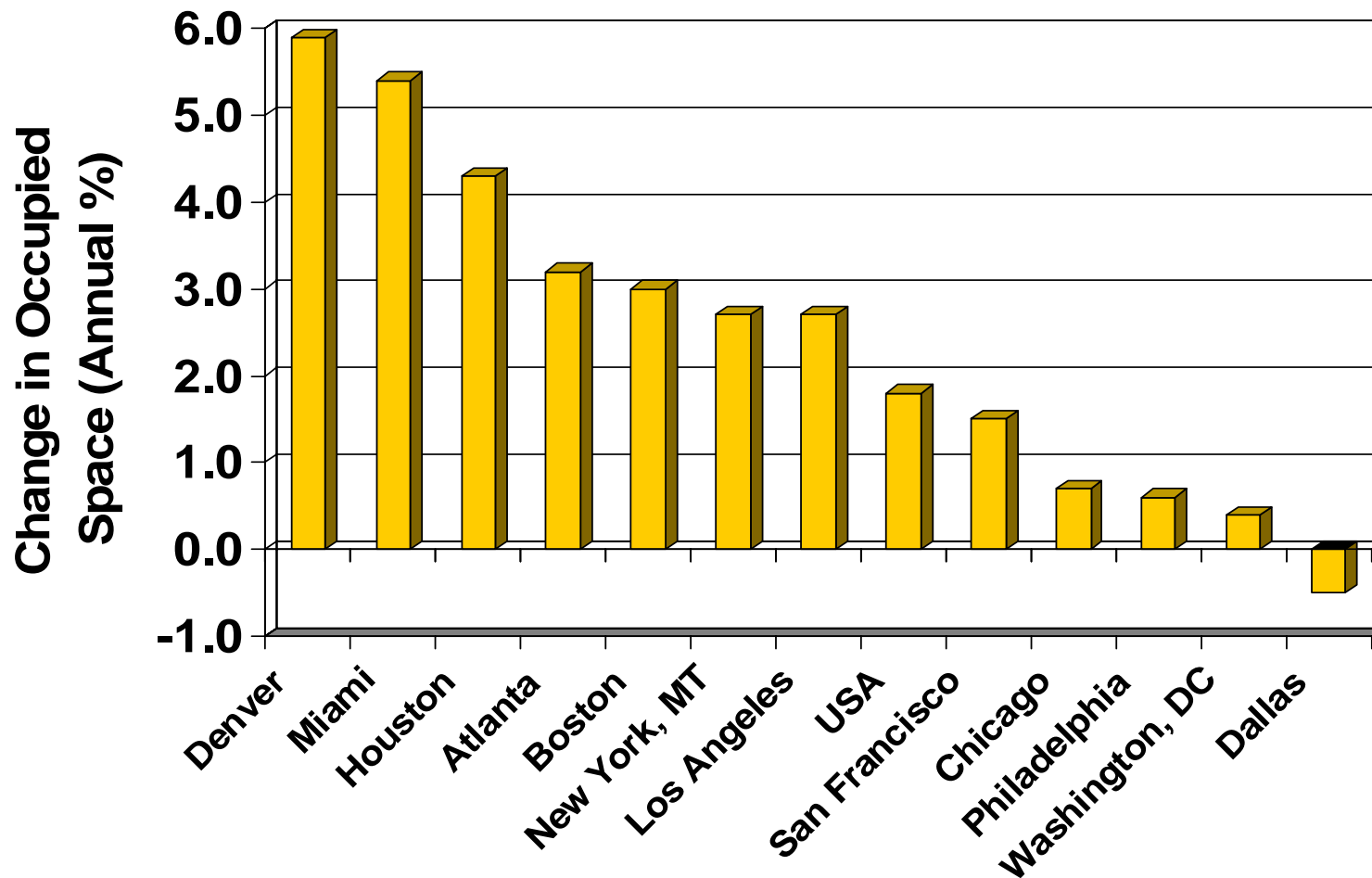
- Law Firms (*lobbyists)
- Business Services (*engineers/architects)
- Financial Services (*mortgage and title companies)
- Computers/data processing
- Personal services
- Software development
- Job agencies
- Medical
- Telecom
- Call centers
- High tech

CBD Absorption

– 6 Months Ending June 2005

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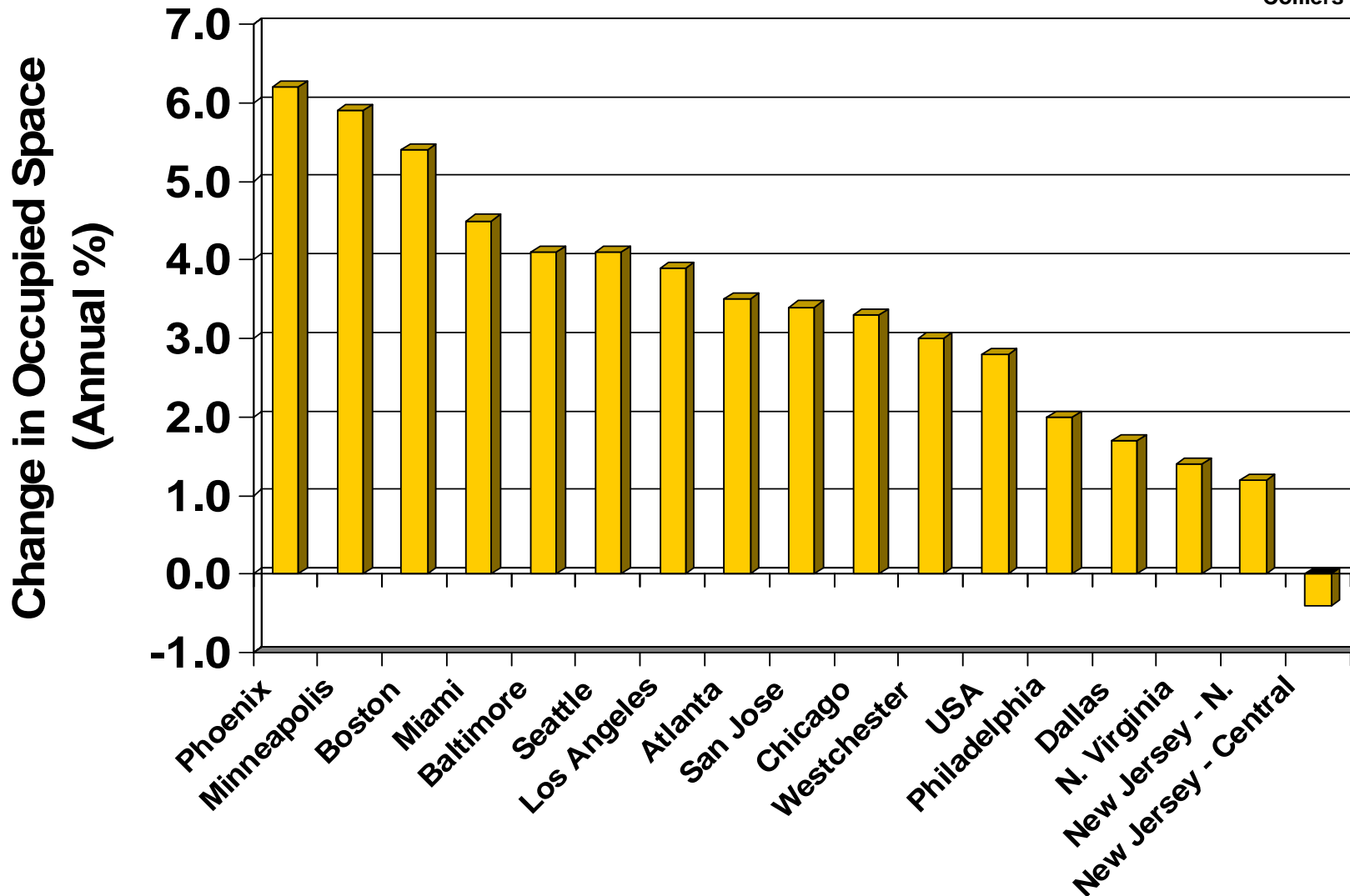


Suburban Absorption

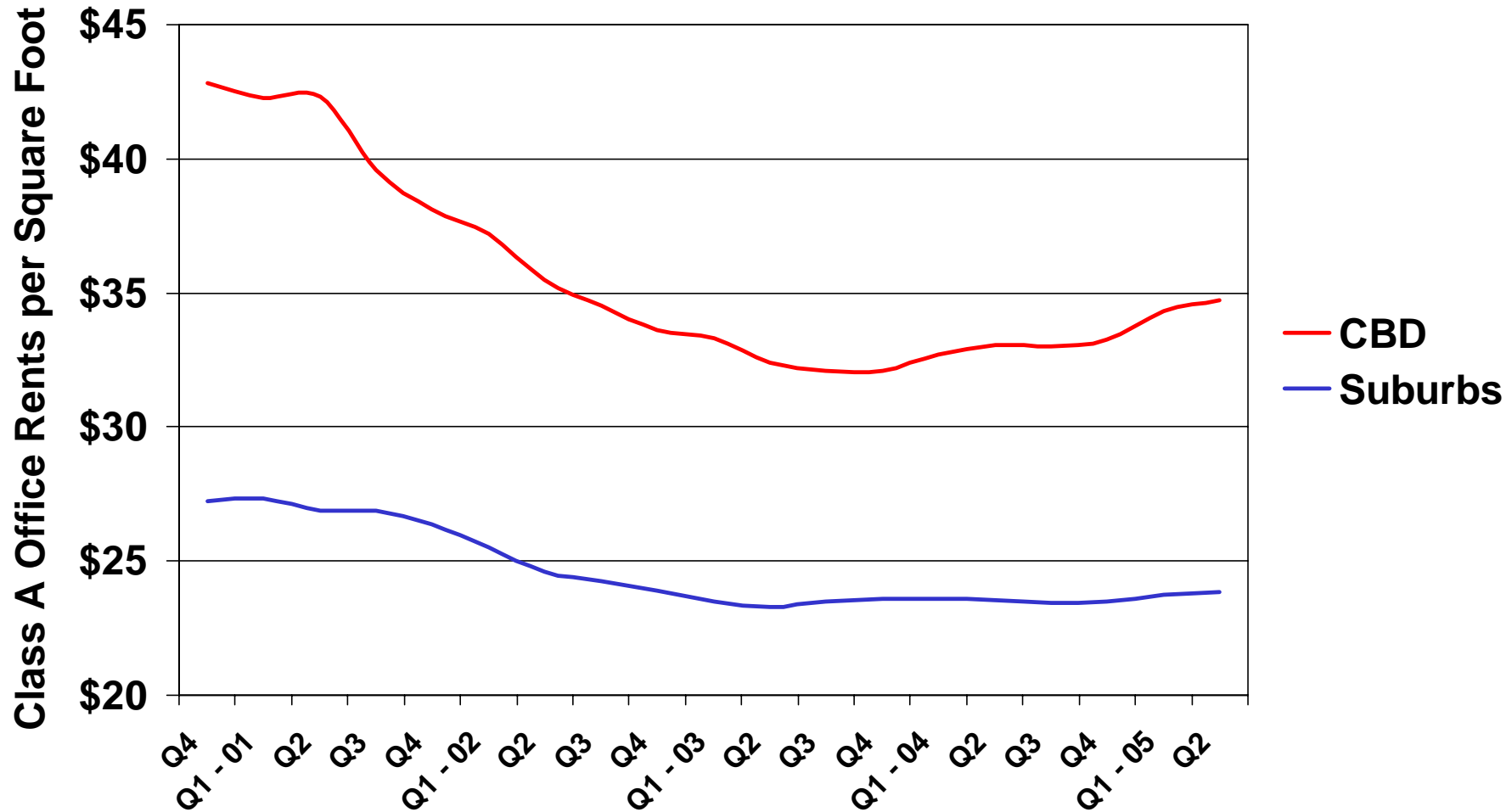
– 6 Months Ending June 2005

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Select CBD Office Markets Showing Increases, Otherwise Trend is Still Flat

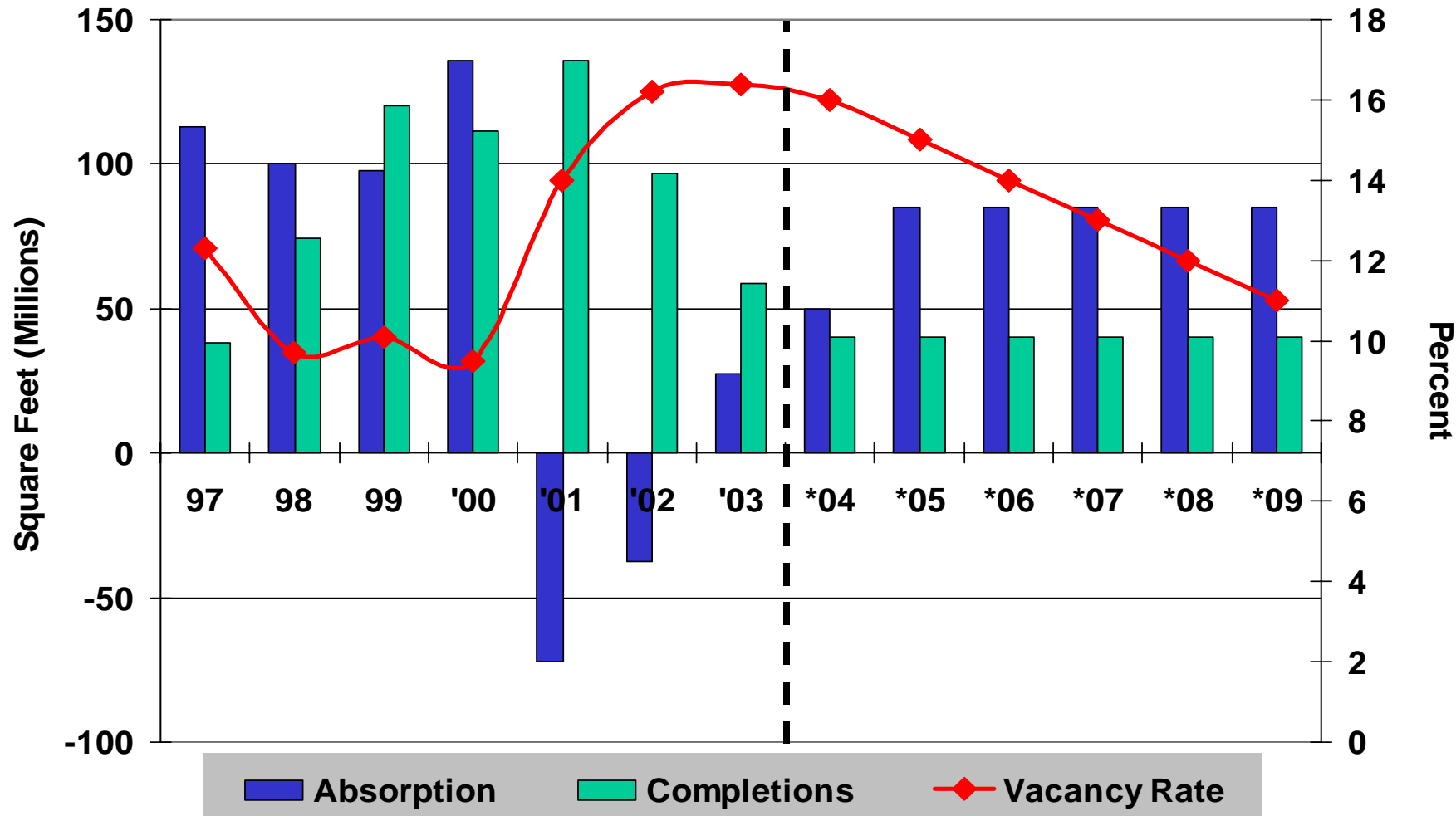


2005 Trends



- Leasing market could be described as “brisk”
- Sublease space almost back to “normal” levels
- Phantom space doesn’t appear to be an issue (apart from a few tech markets)
- Another 58.4 MSF under construction and due to come on line over next 12/18 months (<1.3% of existing inventory)
- Select markets showing rent increases, but most still flat

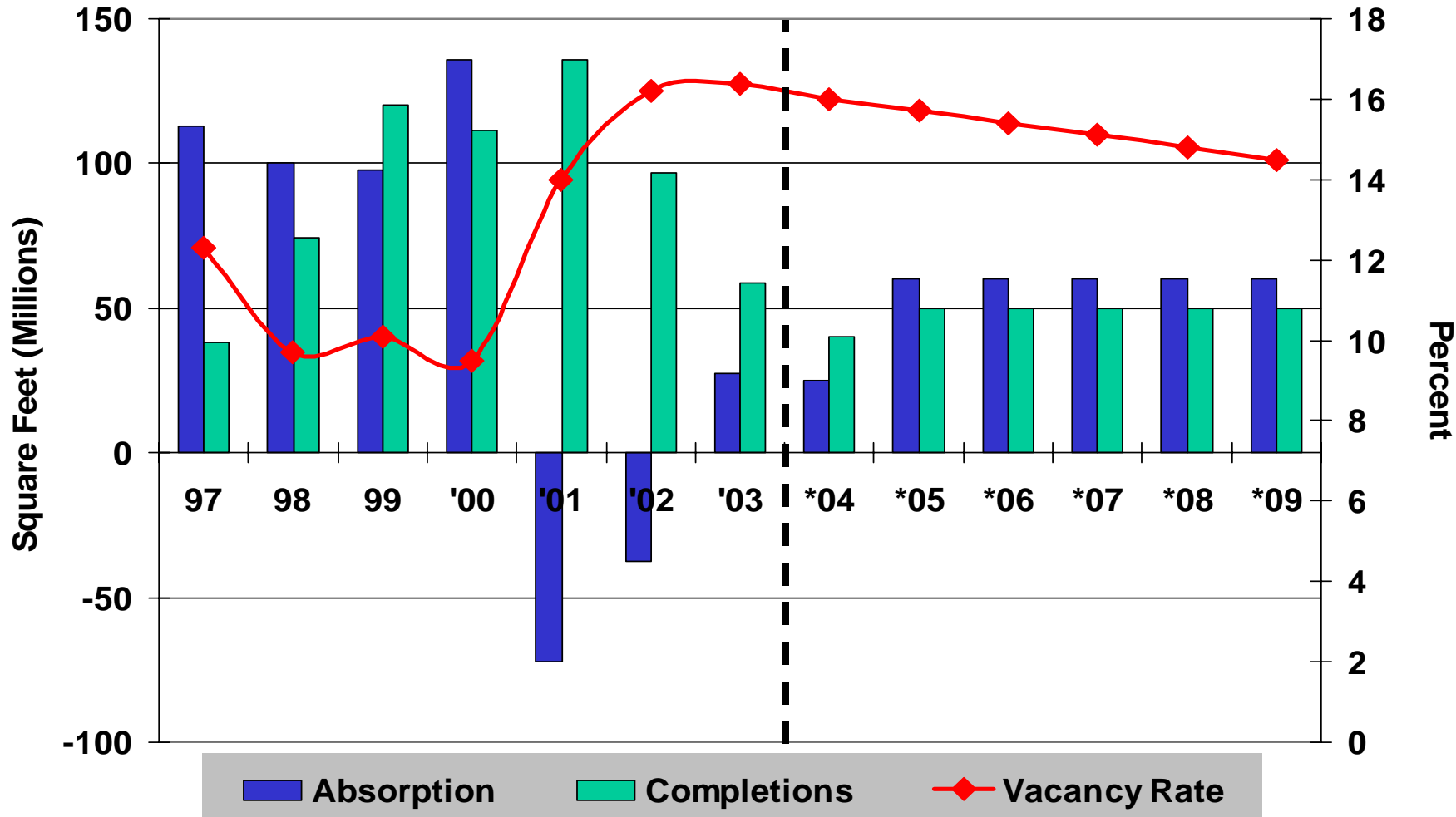
How Do We Get Back to a Balanced Market? – High Growth Scenario



* Forecast

How Do We Get Back to a Balanced Market? – Low Growth Scenario

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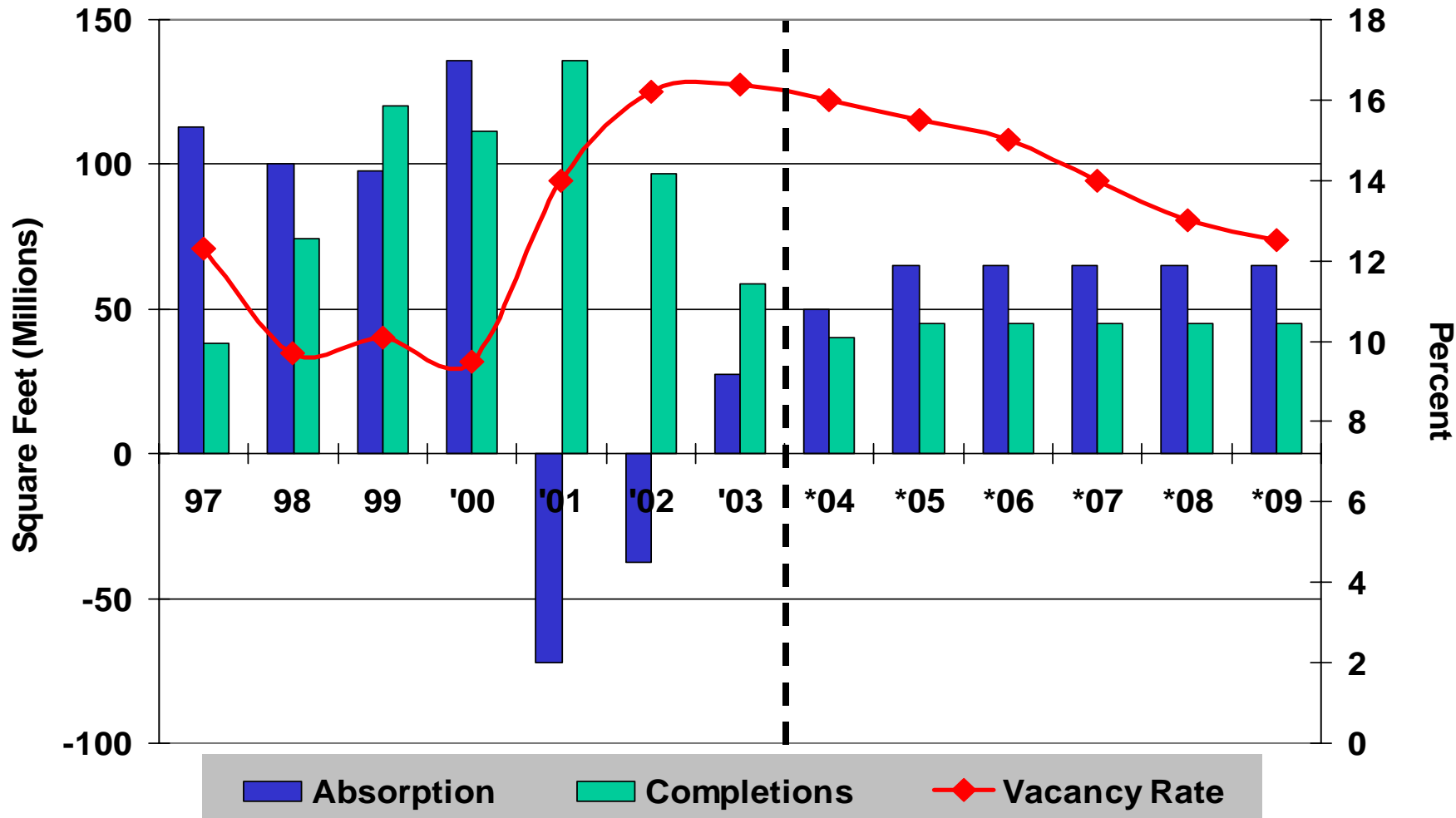


* Forecast

How Do We Get Back to a Balanced Market? – Base Scenario

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* Forecast

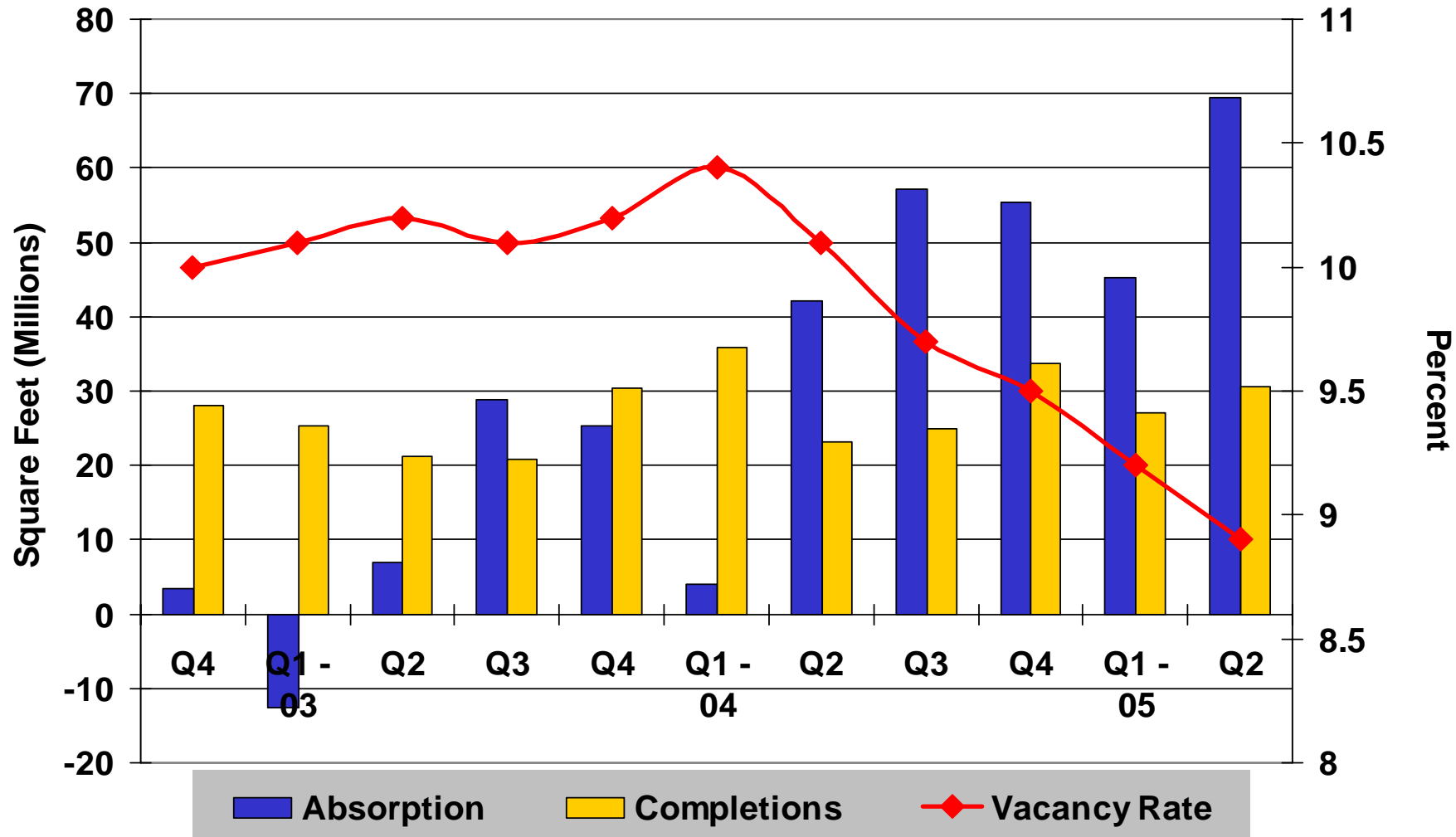
U.S. Industrial Real Estate – A Snapshot

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- Industrial vacancy registered 8.9% in Q2 from 9.2% in Q1
- Q2 absorption 69.7 MSF – very encouraging (45.3 in Q1) 159.8 in 2004
- 92% of metros reporting positive absorption FH of 2005
- Q2 new construction totaled 30.5 MSF (27.0 in Q1), 117.8 in 2004
- Warehouse rents up 4.9% in Q2, down 1.3% in Q1

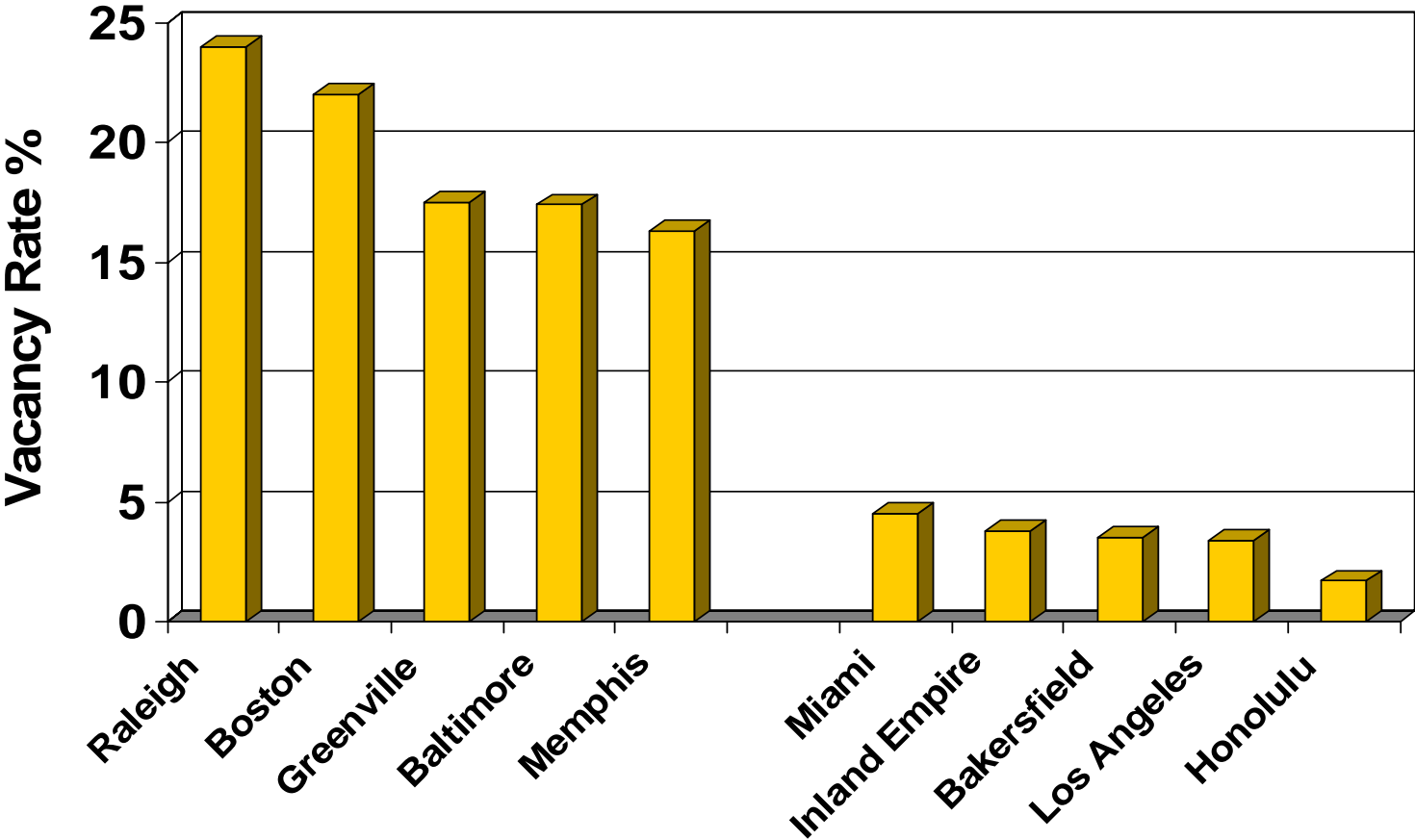
Industrial Vacancies Falling at Surprising Rate

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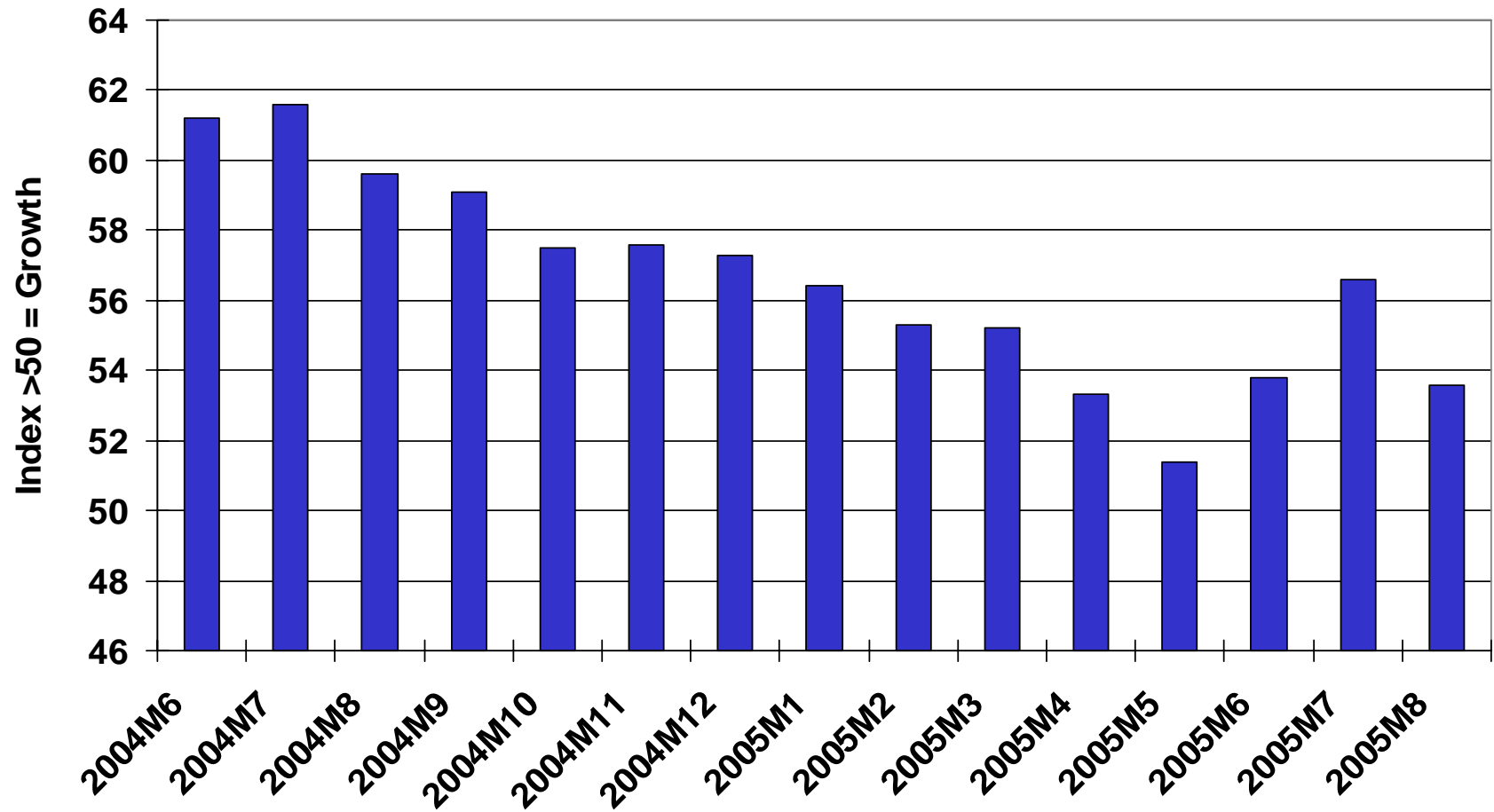
Top Five – Bottom Five

Industrial Vacancy Rates - June 2005



Institute for Supply Management (ISM) Index Still Comfortably Above "50"

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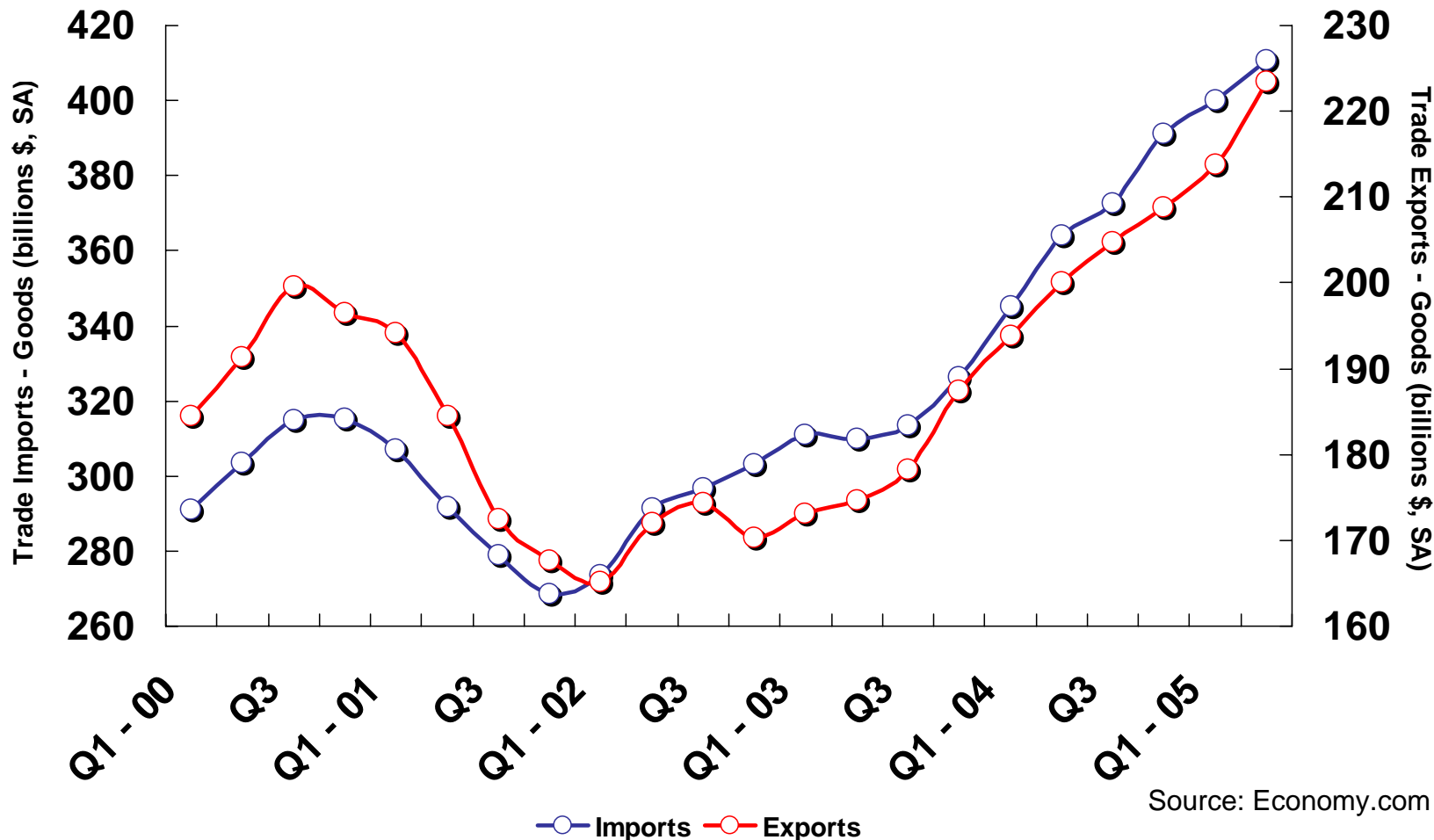


Global Trade Fueling Warehouse Market

– Imports up 12.6%, Exports 11.5%

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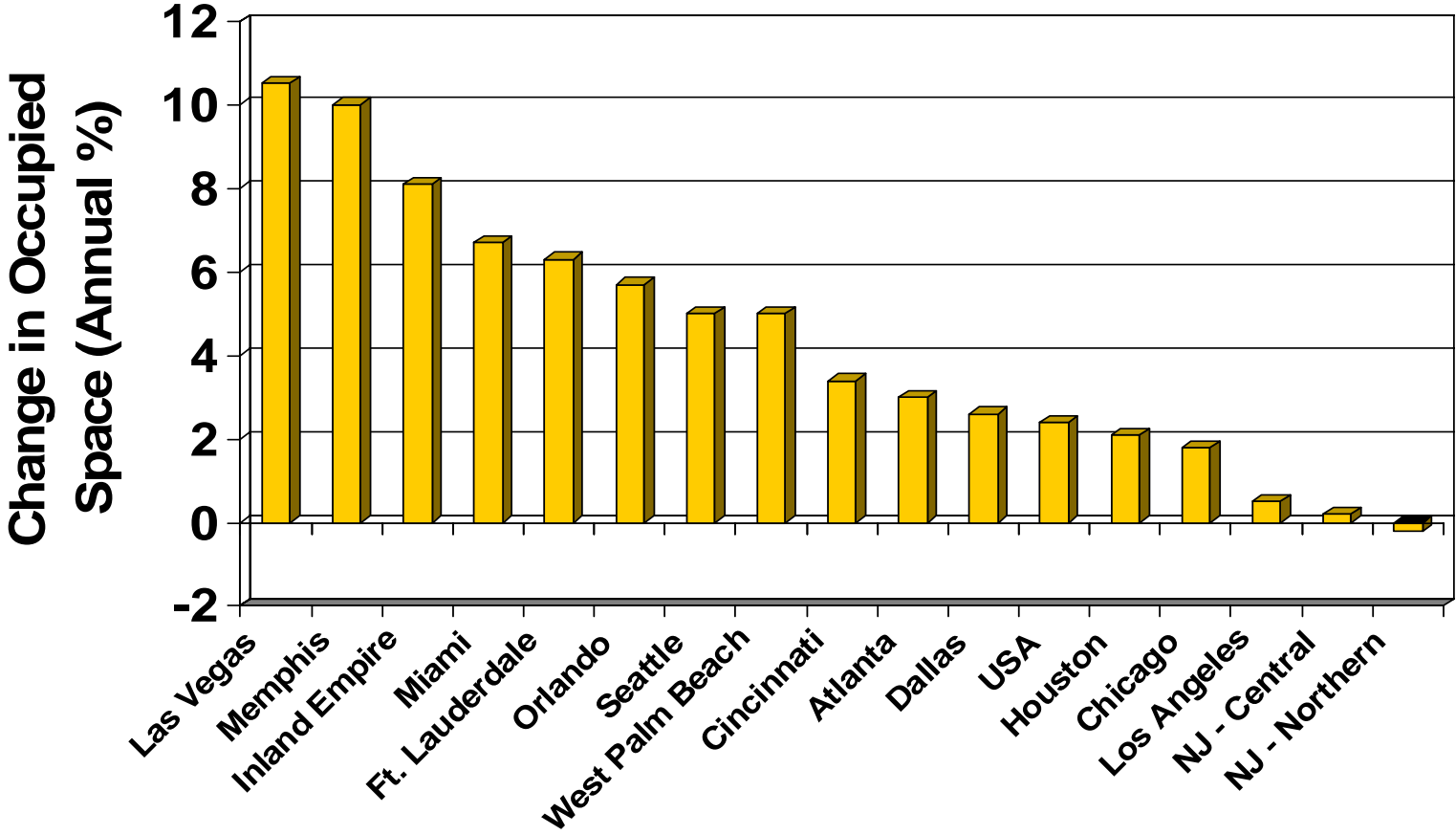


What is Driving the Industrial Market?

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- 3PL's
- Industrial Production/Durable Goods
- Housing
- Retail Sales
- On-Line Retail
- Build-up in Inventories (albeit slowly)
- The economy!

Industrial Absorption – 6 Months Ending June 2005



2005 Trends

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- Leasing activity staying strong
- Available space dropping at a surprisingly quick rate
- Rental rates showing signs of moving up by year-end
- Sales activity very buoyant - \$17bn vs \$8bn
- Still low interest rates to drive build-to-suit market, 84.6 MSF under construction

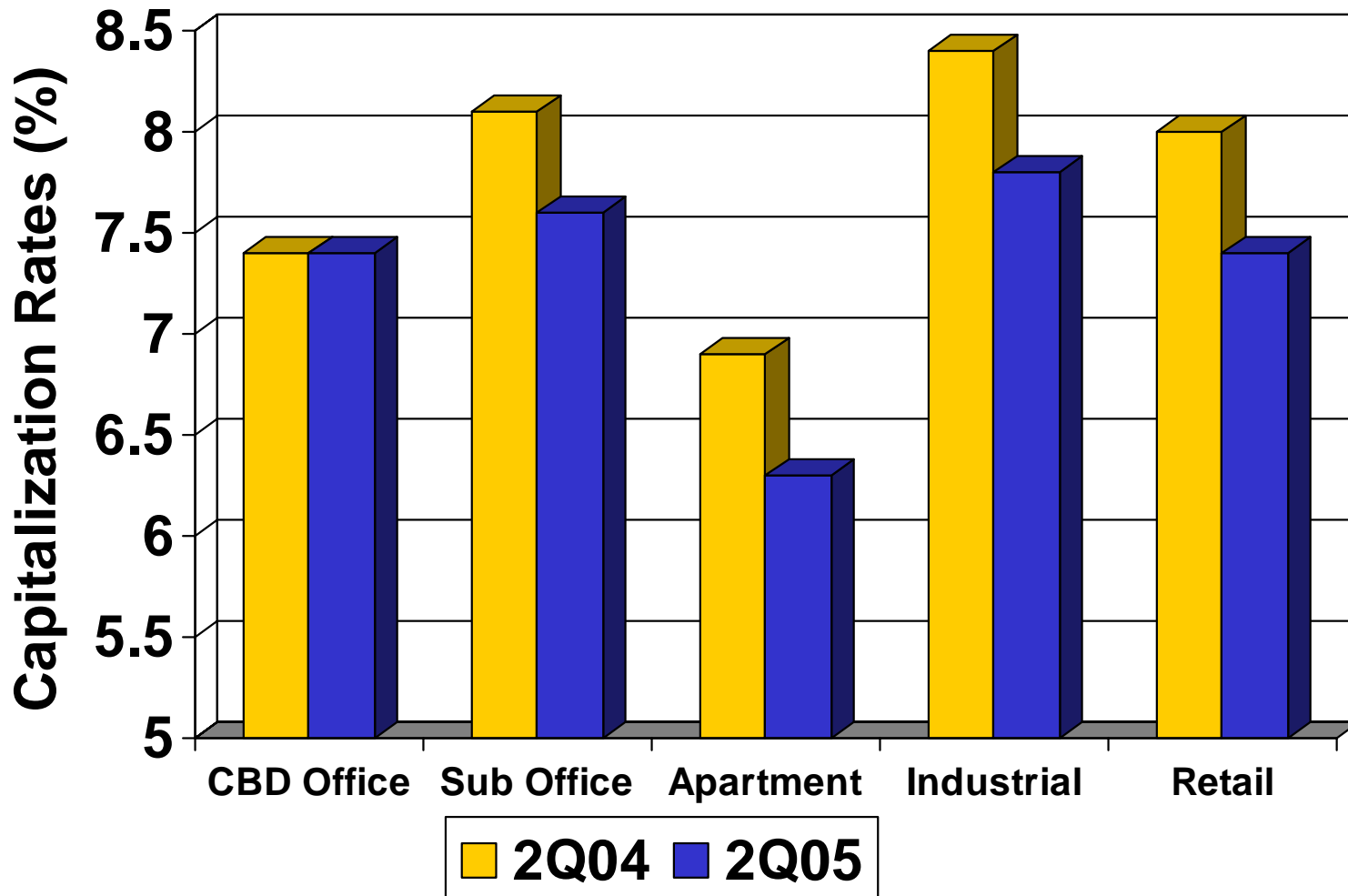
Investment Property Market

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- Investment sales market still in great shape
- Q1 & Q2 sales totaled \$112 billion up 50% for FH 2004 (2004 averaged \$45bn per quarter)
- All property types up sharply on YOY basis with exception of retail
- Cap rates starting to plateau
- Asset prices are still rising driven by improving fundamentals
- Supply of investment properties up sharply from 2003/04 levels

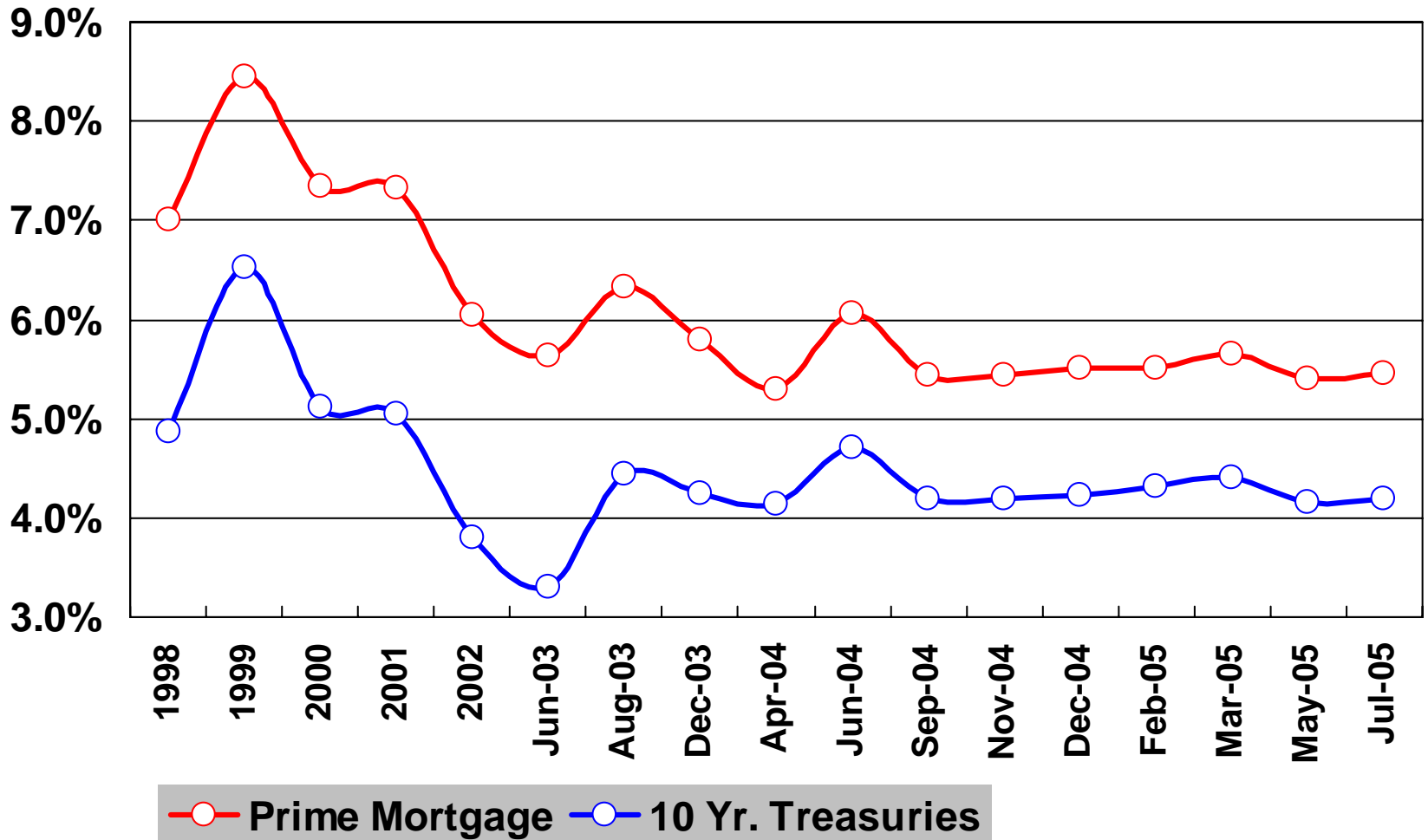
Cap Rates Down Approx. 58 Basis Points (excluding CBD office)

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Mortgage Rates Still Holding Steady Near 5.5%

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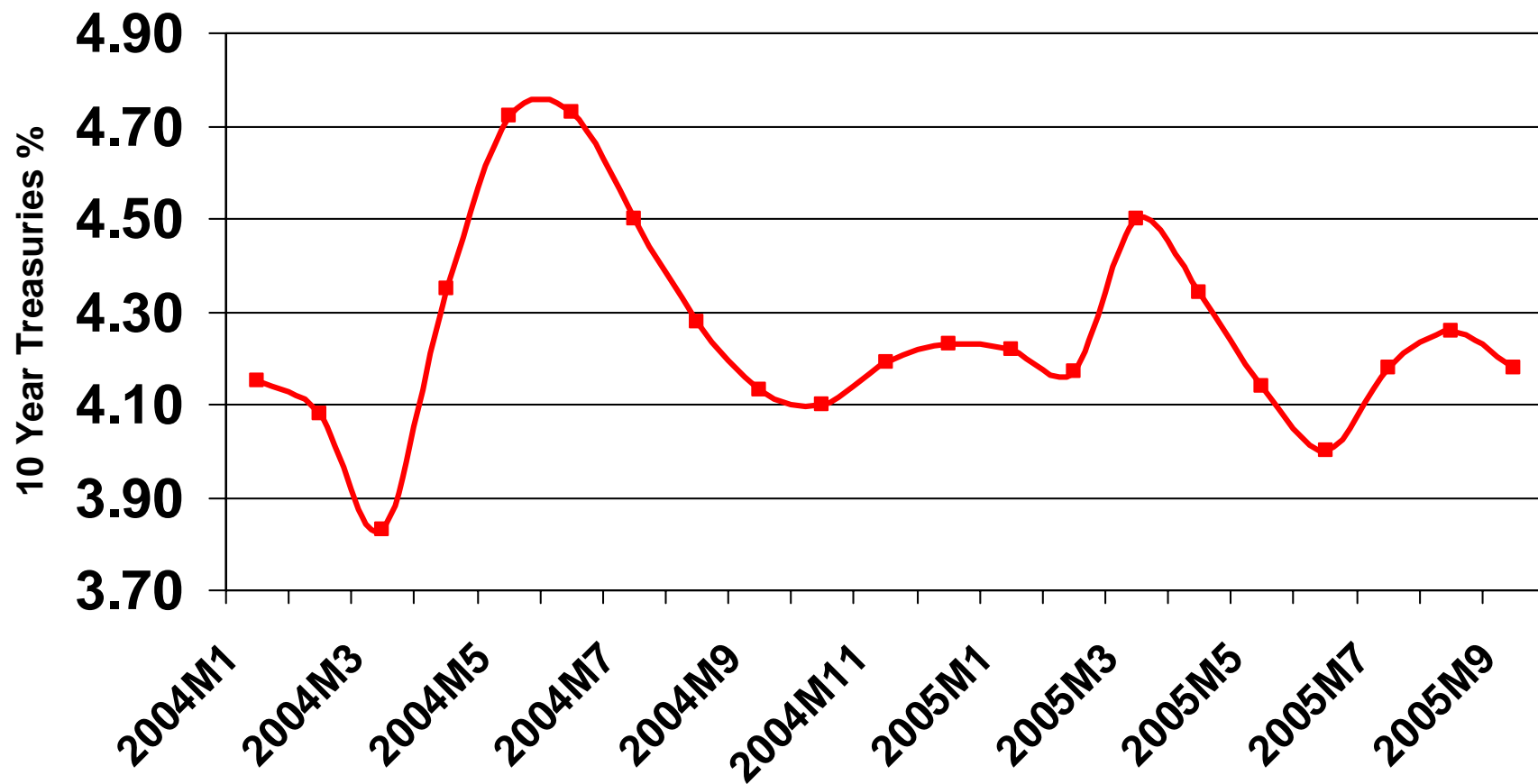


Source: Barron's/John B. Levy & Company

After Dipping Below 4.00%, Long Term Rates Have Settled at 4.10 - 4.20%

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Real Estate Still One of the Only Places to Get Positive Returns (Total Returns)

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	2001 (%)	2002 (%)	2003 (%)	2004 (%)	2005 (%)
DJIA	-7.1	-14.6	25.3	5.1	-2.4
S&P 500	-13.0	-21.2	25.8	10.9	-0.6
NASDAQ*	-21.0	-28.3	49.5	8.6	-2.5
Russell 2000	1.0	-21.4	46.3	18.3	-0.5
NAREIT (Equity)	14.1	3.8	37.1	31.6	9.8
NCREIF (Private CRE)	10.1	6.7	9.0	14.5	9.0**

Note: As of August 26

* Price only

** Q1 & Q2 only

Summary of Investment Property Market

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- Investment dollars still flowing to CRE with no end in sight
- The space markets are a given (largely), focus on the capital markets
- Fundamentals improving but the big unknown is interest rates
- Cap rates show tentative signs of stabilizing but trend still appears to be down
- “Wall of worry” has many owners bringing assets to the market

Summary & Key Points

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- The race is on – improving fundamentals versus higher cost of debt
- Leasing markets past the worst, absorption rates likely to plateau at today's levels
- Hard to see how real estate could fall out of favor, for many of today's investors, it's all about income, income, income
- We have the best of all possible worlds – medium growth, modest job gains and low interest rates

Ross' Crystal Ball

What we can expect in 2005

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- Interest rates while on up trend, will also peak at historically low levels
- Corporations will remain wary, but hiring and expansion should occur nonetheless
- Consumer spending will almost certainly trend down
- Sublease will continue to drift lower (10% by y/e)
- Vacancy rates will continue to trend downward
- Rents will start to edge higher
- Office absorption will be in the range of 80 to 90 MSF
- Industrial absorption will be 150+ MSF

Global Markets – A Brief Overview

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- **Europe**
 - encouraging signs for most of Europe – even Germany
 - improvements expected to continue
- **Latin America**
 - average vacancies down to 11.8%
 - political uncertainty still key concern
- **Asia Pacific**
 - vacancies down 1.7 percentage points in FH
 - home to 58.2 MSF of new office construction
- **North America**
 - USA (see previous slides!)
 - Canadian markets strengthening

2005

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