



COLLIERS
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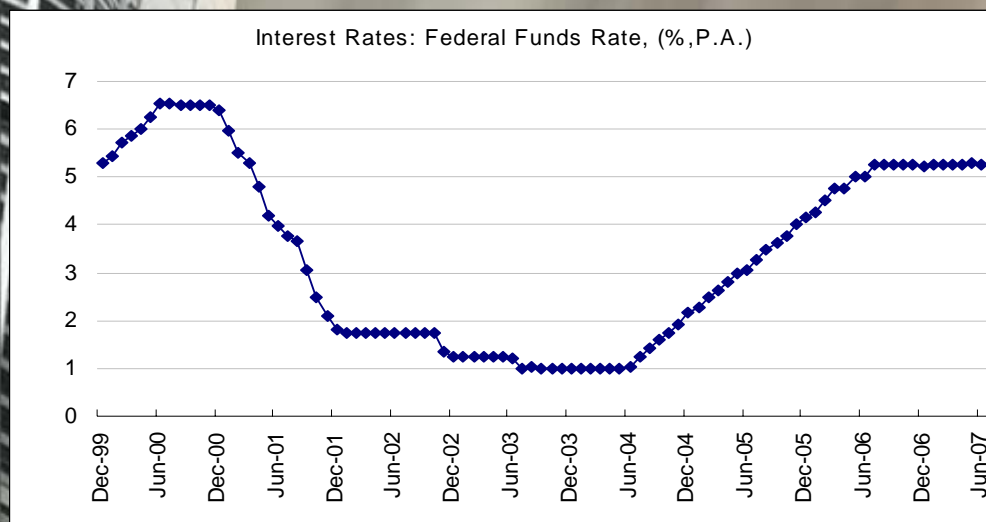
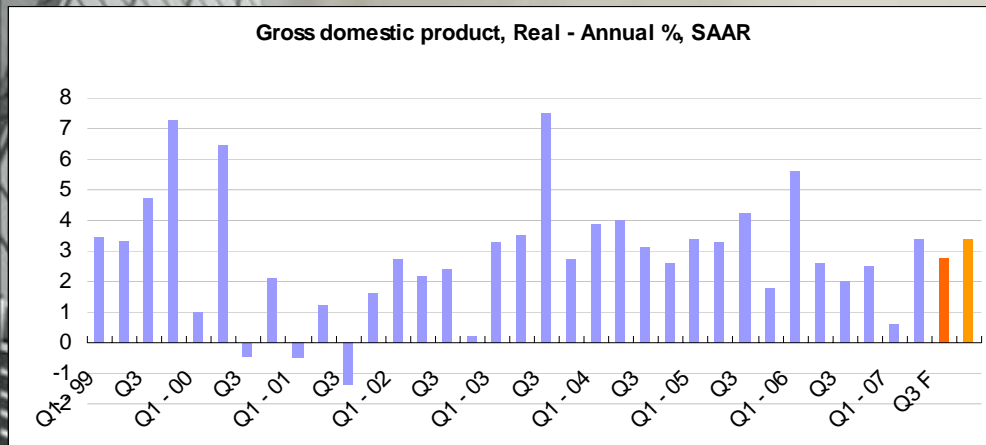
US Office Real Estate
2nd Quarter 2007

Our View of the Office Market

- Despite a softer economy, office market still on track for another good year
- All eyes will be on the labor market to gauge demand for office space
- Even with a moderation in demand, rents are anticipated to still trend higher particularly for downtown office space
- Rising construction activity beginning to cast a shadow on office sector – select markets showing early signs of over-building



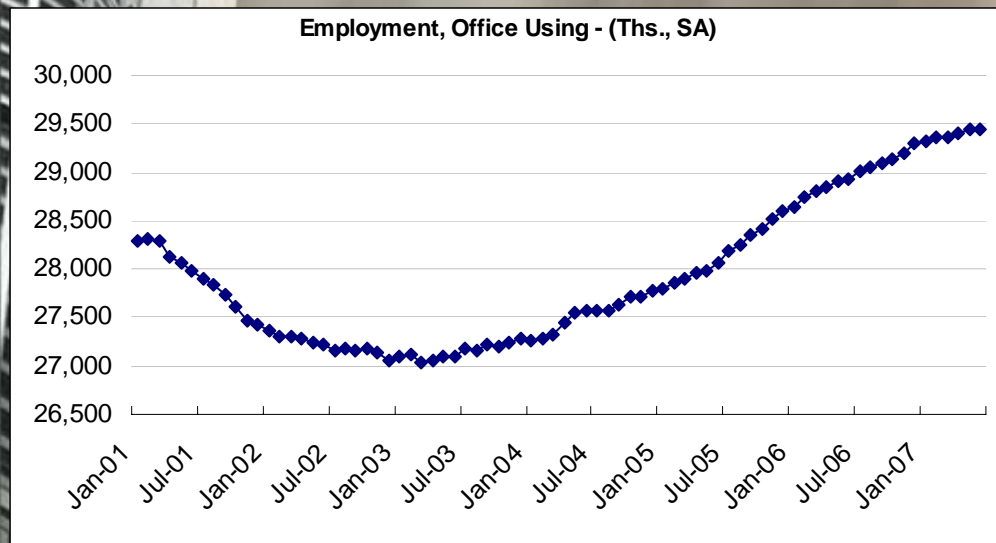
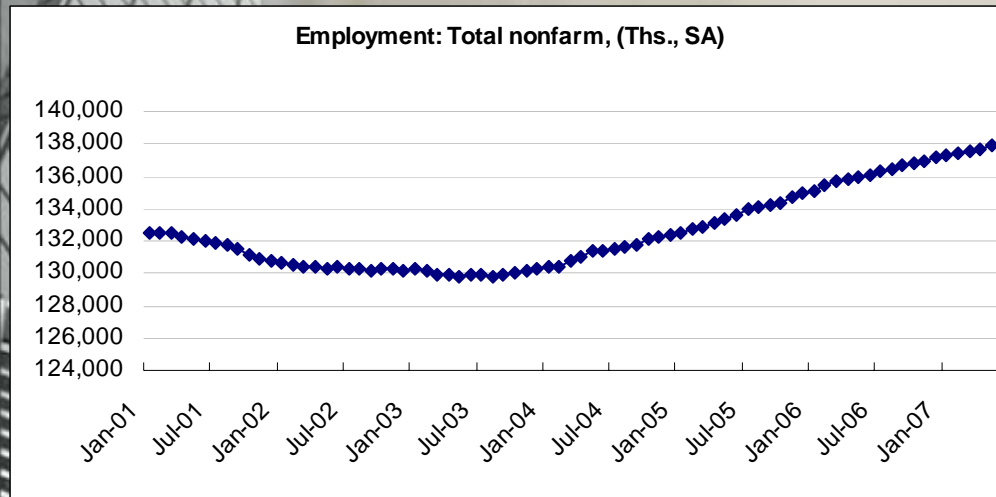
Office Real Estate – Key Demand Drivers



- US economy posted healthy growth in Q2 (3.4%), third quarter to be near 2.5%

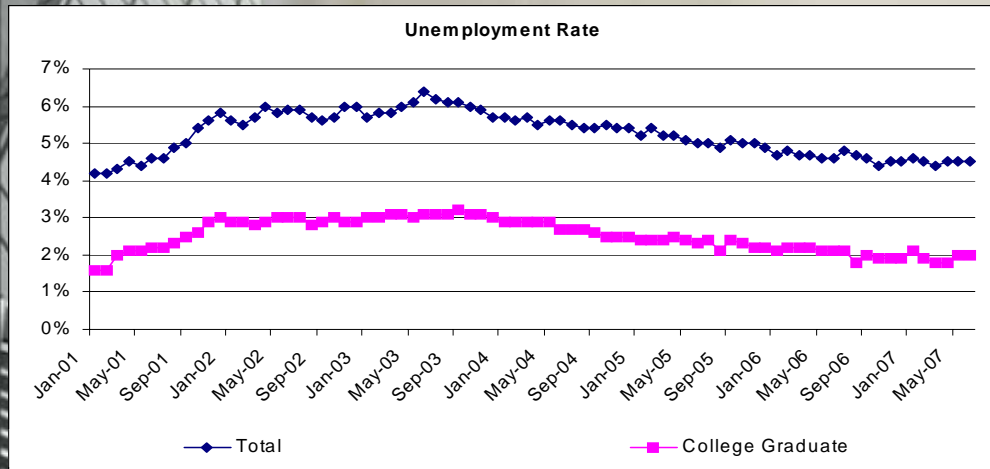
- Federal funds rate at 5.25% for just over a year with no change anticipated before 2008

Office Real Estate – Key Demand Drivers

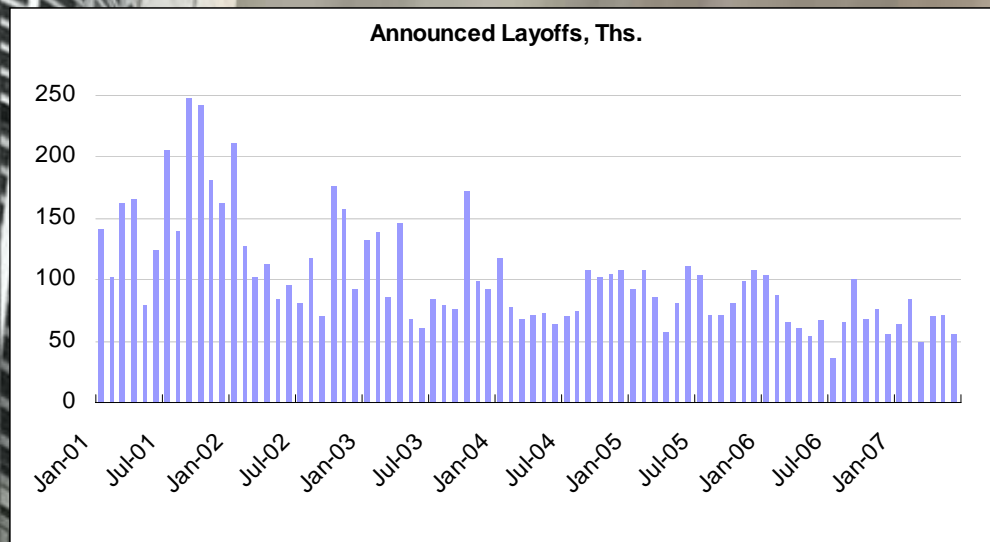


- Second quarter job creation broadly on par with Q1 (approx. 145,000) – Q3 not off to a promising start
- Office using employment also slowing, growing by just 1.7% - June year-over-year

Office Real Estate – Key Demand Drivers

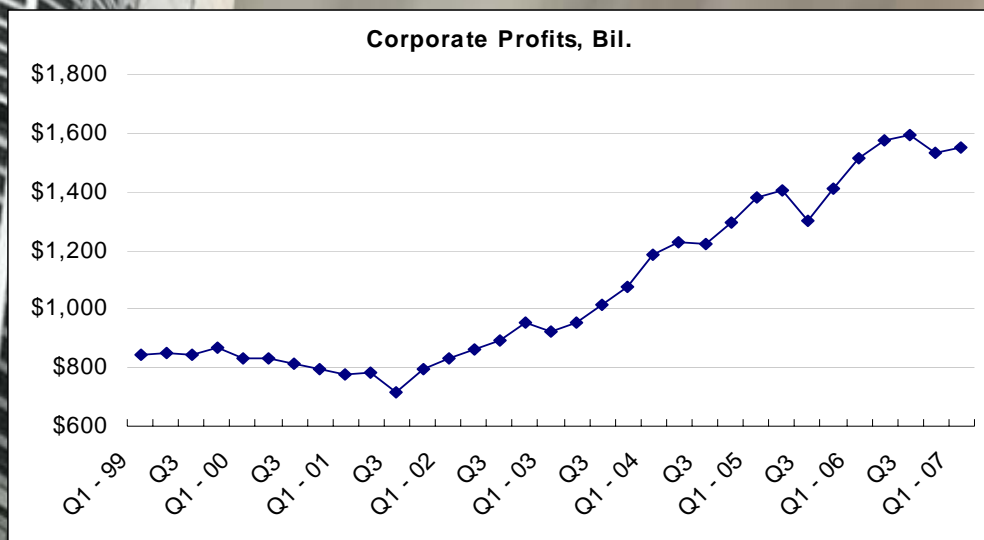
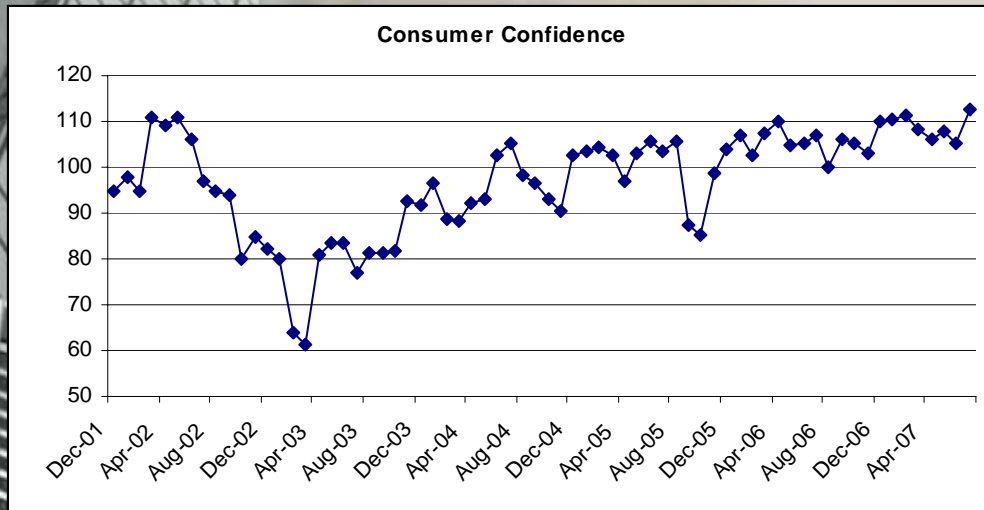


- July unemployment rate up to 4.6% - college rate 2.0% after hitting 1.8%



- June layoffs just 55,700 – low end of range

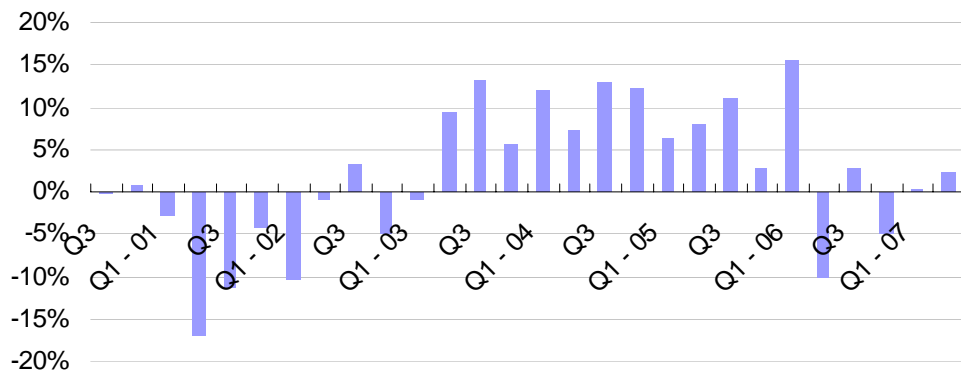
Office Real Estate – Key Demand Drivers



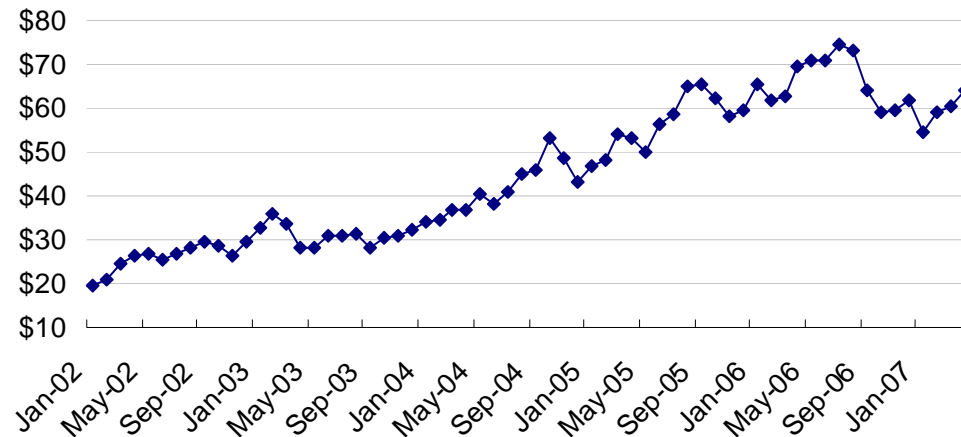
- Despite a sluggish housing market and increasing gas prices consumer confidence remains high suggesting consumption will stay strong
- Q1 profits back up after Q4 dip – up 2.1% year-over-year

Office Real Estate – Key Demand Drivers

Capital Spending, Equipment & Software, (Annual Rate)

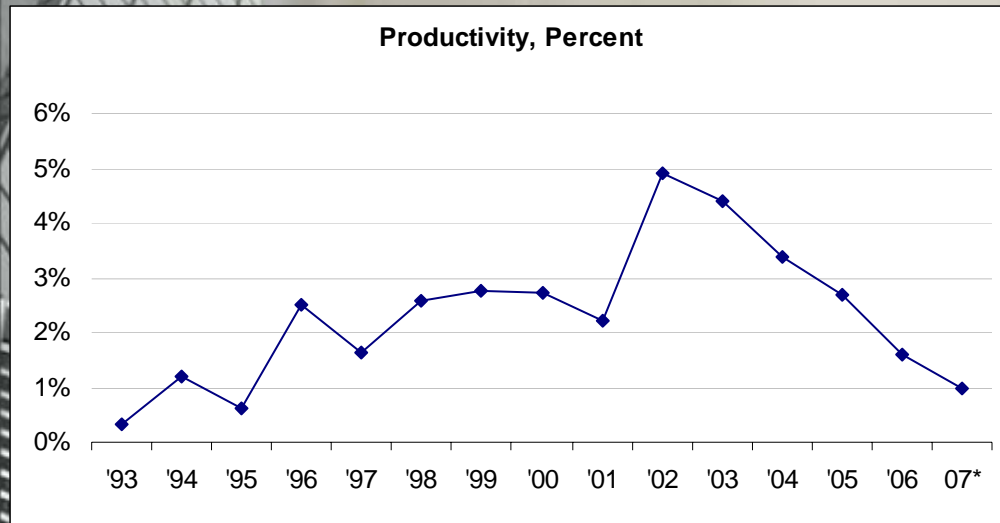


West Texas Oil, USD per Barrel



- After double-digit growth for much of 2003-2005, capital spending now much reduced
- Oil once again flirting with record prices – and no major hurricanes, yet!

Office Real Estate – Key Demand Drivers



for Q1 only

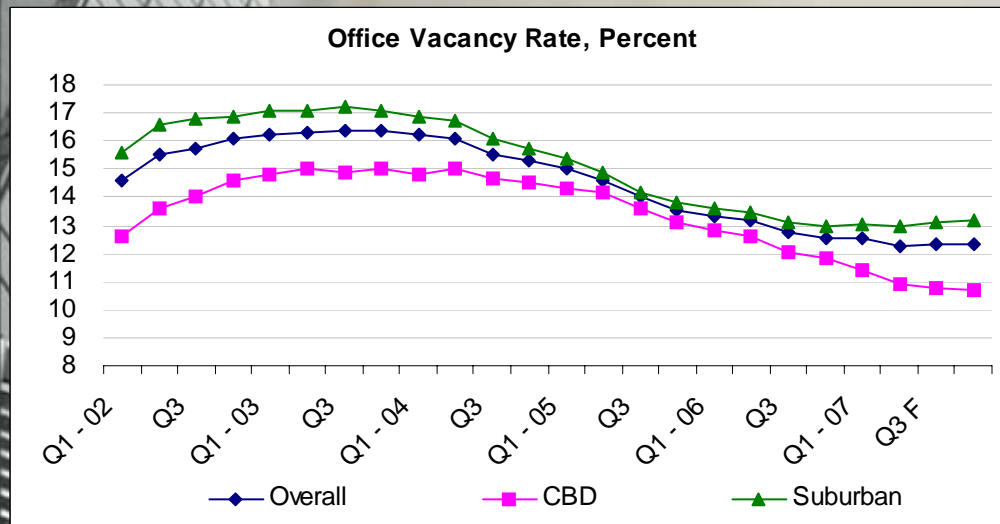
- Q1 Productivity remained low (just 1.0%) – something the Fed will be watching and may slow interest rate cuts

Office - Snapshot

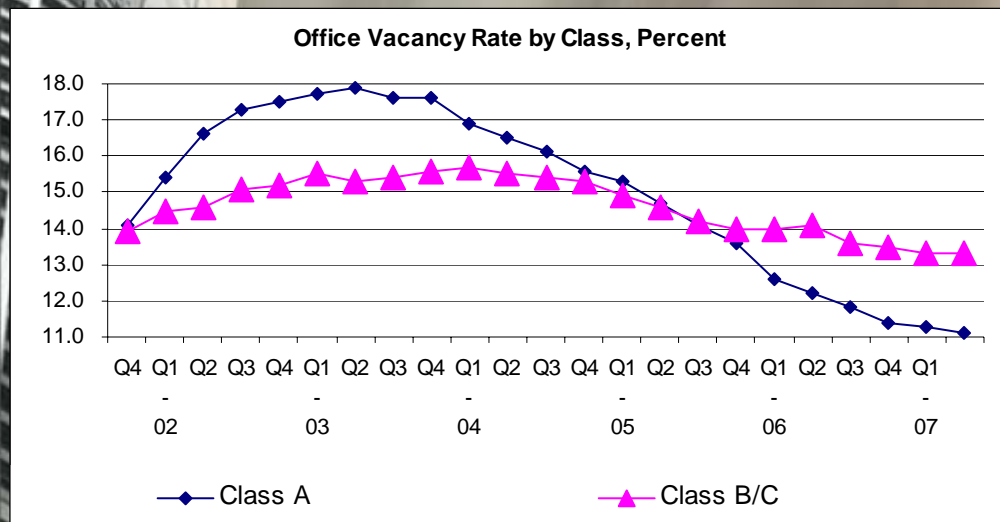
- Office vacancy rate dipped lower during Q2 falling to 12.28% (DT – 10.9%, Sub – 13.0%)
- Vacancy rate to landlords 11.0% (excluding sublease space)
- Q2 absorption registered 20.7 MSF, (13.5 in Q1 and 27.8 in Q2 2006)
- Q2 new construction registered 18.4 MSF (14.9 in Q1) 14.6 in Q2 2006
- Sublease space at 10.2% of vacant space
- Rents up again during Q2 – CBD +6.3% and suburban +3.8% (YOY 22.3%/9.4%)



Office Real Estate – Market Fundamentals

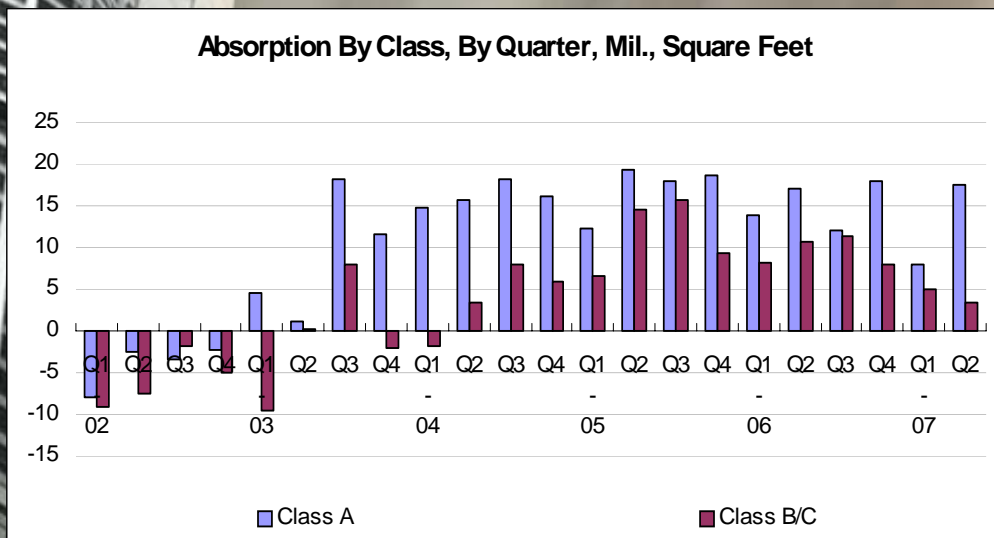
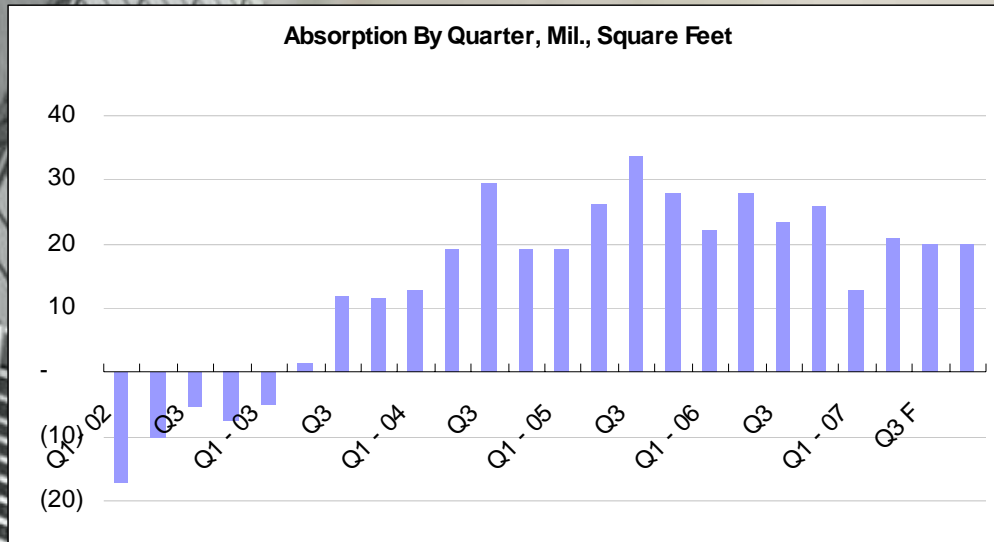


- Office vacancy fell marginally during Q2 after steady declines - cyclical low may have been reached



- Class A vacancy rate now 220 basis points below Class B/C - approaching 11.0%

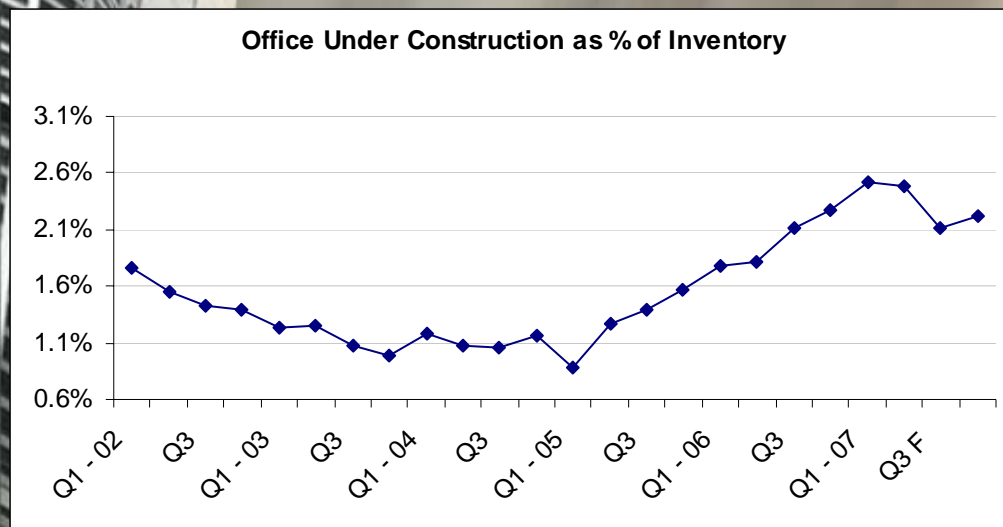
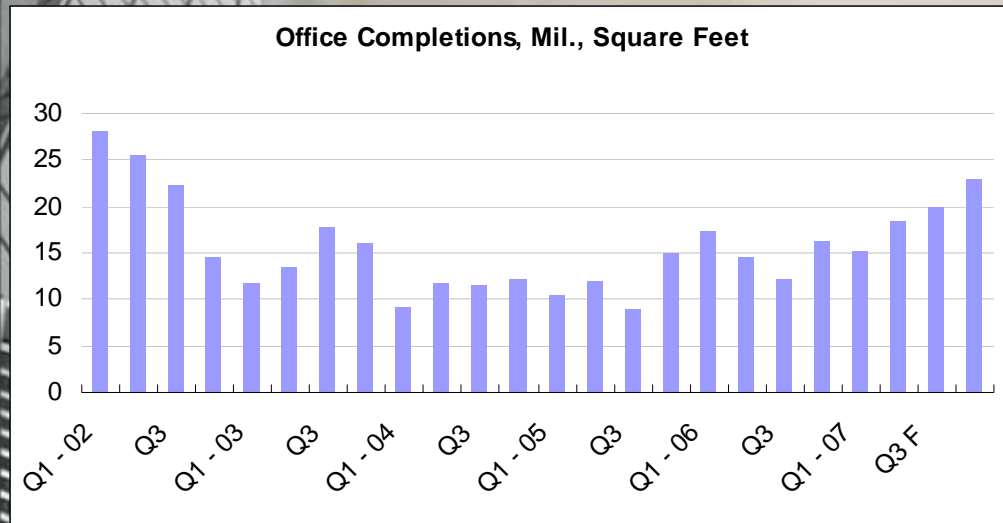
Office Real Estate – Market Fundamentals



- Q2 absorption back to more “normal” levels – absorption unlikely to hit 25 MSF in Q3 or Q4 as anticipated

- Absorption for Class A space back above 15 MSF - B/C space below 5 MSF

Office Real Estate – Market Fundamentals



- Q1 completions will likely mark the low point for 2007 – like Q2, Q3 and Q4 will be nearer 20 MSF
- Construction activity posted its first dip since early 2005 – cyclical high may have been reached

Under Construction (Top 10)

- as at Q2 2007

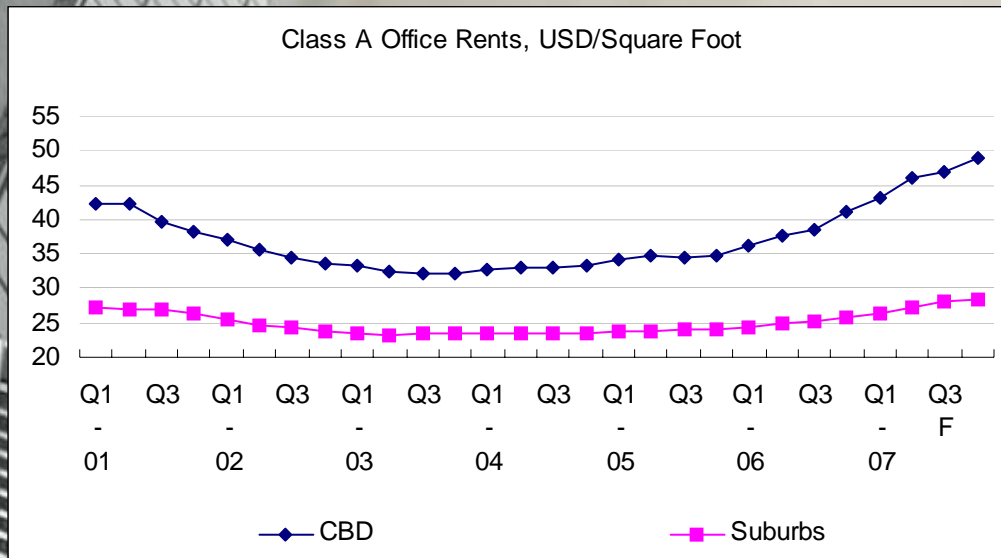
CBD (million SF)

1. Washington – 6.2
2. NYC, Midtown – 5.0
3. NYC, Downtown – 4.6
4. Chicago – 4.3
5. Charlotte – 2.2
6. Seattle – 1.9
7. San Francisco – 1.8
8. Philadelphia – 1.3
9. Columbus – 1.1
10. Atlanta – 0.9

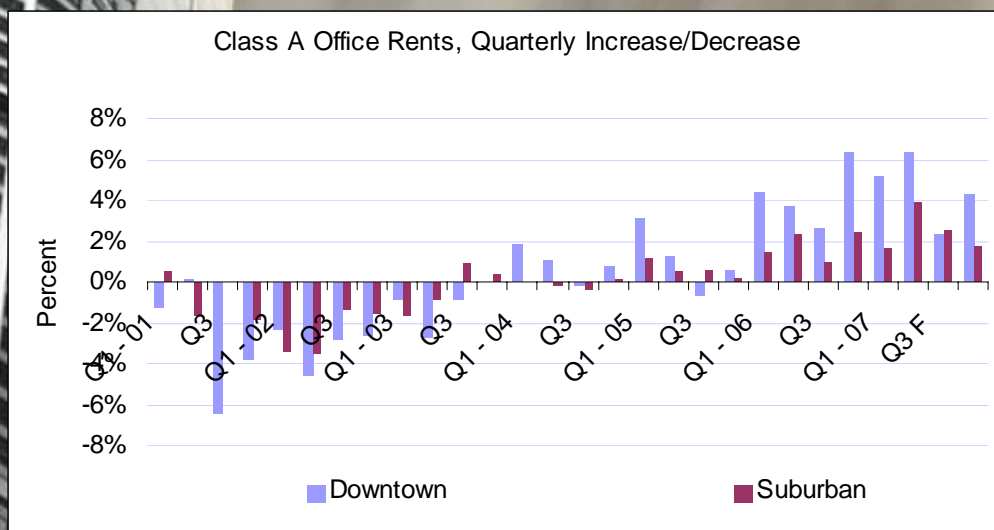
Suburban (million SF)

1. Phoenix – 7.2
2. N. Virginia – 6.6
3. Dallas – 5.0
4. Atlanta – 4.9
5. Houston – 4.3
6. Boston – 3.8
7. Seattle – 3.6
8. Los Angeles – 3.4
9. San Diego – 3.3
10. Orange County – 2.9

Office Real Estate – Market Fundamentals



- Rents again moved higher in Q2 with CBD rents increasing 6.3% and suburbs up 3.8% - CBD above last cycle high



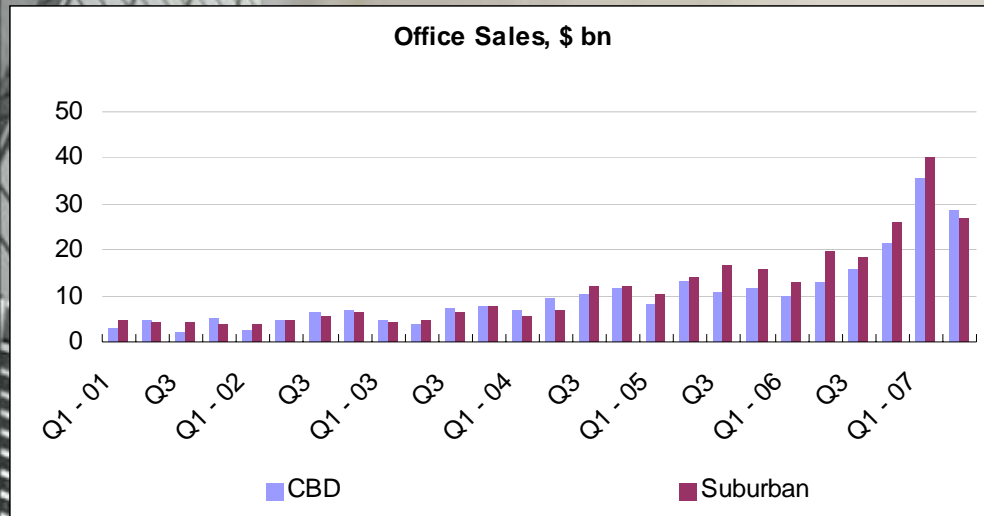
- Q2 marked 5th quarter in past 5 where CBD rents had increased by more than 2.5%

Investment Sales Market

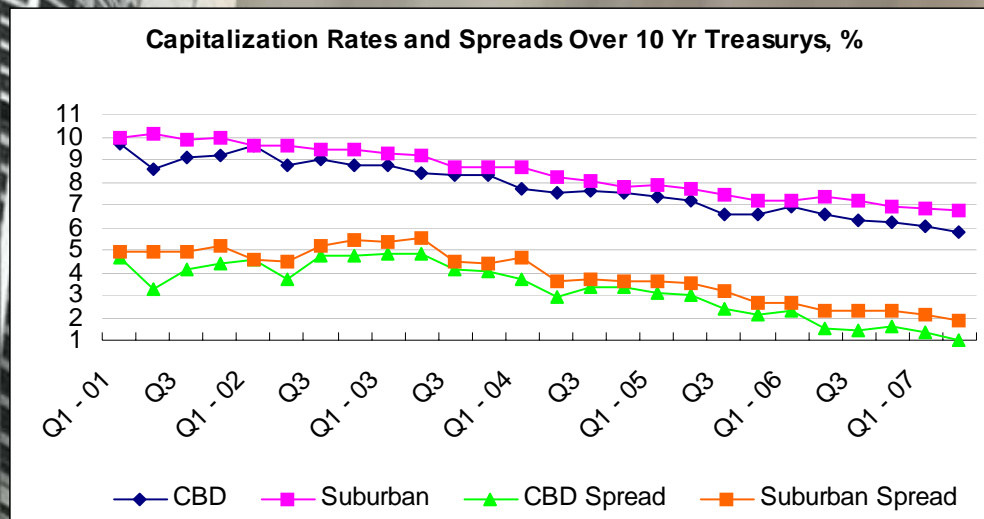
- Investment data skewed by large portfolios and REIT privatizations – individual office buildings up just 13%
- Mutual fund flows into RE negative for past 8 weeks – longest since 1999
- Sellers starting to lose pricing power – listings up 72% over 1H 2006
- Sub-prime lending concerns have caused a few jitters in the CMBS market and underwriting standards have been tightened - mortgage rates up 25 bps
- Surprising many, REIT's showing negative returns YTD (-15.0% [8/3/07])



Office Real Estate – Capital Market Fundamentals



- Q2 office investment sales activity down vs. Q1 but up 139% YTD – flipping is “rampant”



- Direct investment spreads down, but CMBS up 70 bps on low grade tranches



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