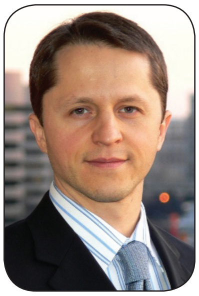

SIOR Index — Commercial Markets Move Sideways in Second Quarter 2012

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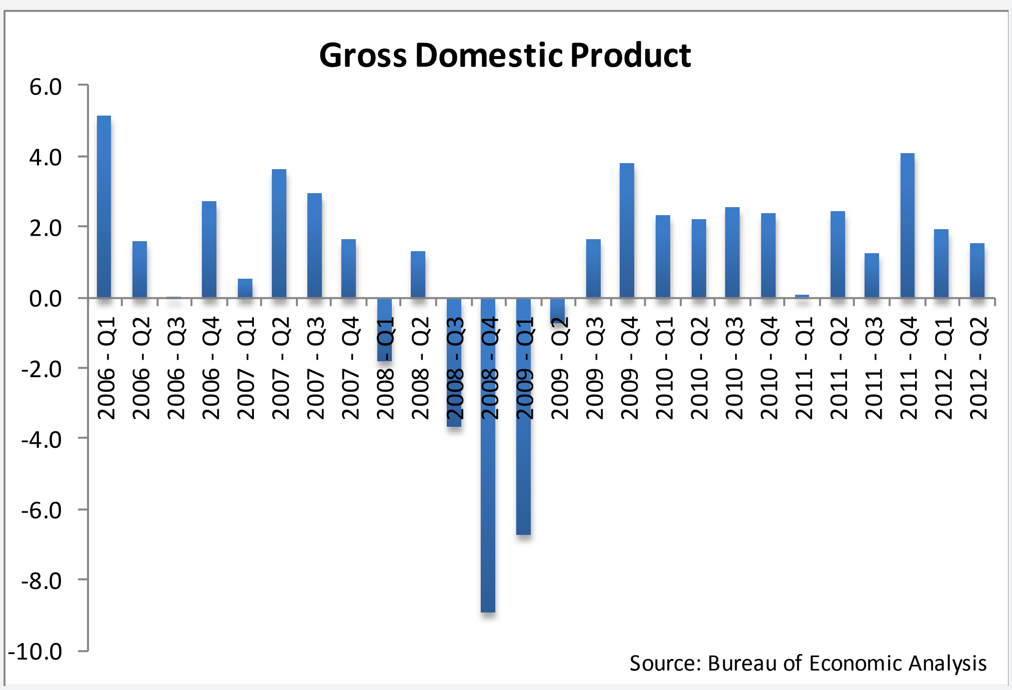
NAR Economic Overview

Heading into the third quarter of 2012, the economy seems to have gone on vacation. The pace of economic activity slowed noticeably in the second quarter and most indicators point to an environment of suspended expectations. The presidential election and legislative issues on the horizon are weighing heavily on the minds of market participants. Against this backdrop, the slight slowdown experienced SIOR practitioners in office and industrial markets tempers expectations.

Looking at economic activity as measured by gross domestic product (GDP), it is obvious that fundamentals are in a slowdown. Based on the Bureau of Economic Analysis's second estimate, GDP increased a scant 1.5 percent in the second quarter of this year. The anemic figure comes in the wake of a soft first quarter rise of 2.0 percent. After a recession, a healthy recovery translates into GDP growth in the 4.0-to-6.0 percent range.

Both consumers and businesses moderated their spending. For consumers, weak employment growth, stagnant wages, rising prices and low confidence collaborated to inhibit spending. For employers, volatile financial markets, increased regulation and rising uncertainty over the outcome of the presidential election and the 2013 legislative environment outweighed record profits and cash reserves, leading to restrained interest in expanding payrolls. Meanwhile, governments at all levels continued to cut expenses.

Following a double-digit run-up in spending during the middle part of last year, companies have been steadily scaling back their purchases. Business investments increased at an annual pace of 5.4 percent in the second quarter, a small advance compared with annual growth rates of 14.6 percent in 2010 and 10.4 percent in 2011. Spending on equipment and software gained 7.2 percent, driven by investments in



Source: Bureau of Economic Analysis

industrial and transportation equipment. Companies cut back their purchases of information processing equipment to an annual rate of 2.1 percent, from 8.7 percent a year ago. Expenditures on new commercial buildings were virtually flat at 0.9 percent. Rather weak business activity is puzzling given the vast amounts of cash that the companies are sitting on.

A bright spot for business, international trade gained during the second quarter. Both exports and imports of consumer goods increased 6.0 percent. Exports of services rose 3.7 percent, while imports of services advanced 5.5 percent, leading to a negative net export figure. Industrial and warehouse spaces will continue to be sought after as trade activity grows.

Accounting for two thirds of economic activity, consumer spending increased a modest 1.5 percent in the second quarter. Spending on goods was almost unchanged at an annual rate of 0.7 percent. Consumers actively cut back their spending on durable goods, with spending on cars dropping by 10.7 percent and purchases of furnishing and appliances declining by 1.5 percent. Consumers also slashed their spending on food, clothing and shoes, while upping their spending on gasoline and energy goods. Faced with an uncertain economic environment, consumers chose to redirect their spending to housing, health care, recreation and financial services and insurance. The retail sector will expand very slowly, at best.

Government spending declined 1.4 percent, driven by budget cuts at federal, state and local levels. At the federal level, both defense and nondefense cuts of 0.4 percent added to decreases spending. Squeezed by lower revenues, state and local governments continued to slash spending by 2.1 percent, the eleventh consecutive quarterly decline. On the commercial front, some newly vacant office spaces, previously leased or owned by the government, will likely reach the market soon.

Lack of employment growth sits at the core of the current economic condition. In the wake of disappointing quarterly earnings reports, several major companies have been announcing layoffs during the quarter. After a positive first quarter, when the private sector added a net 711,000 payroll jobs to the economy, the second quarter generated a meager 369,000 jobs. Government jobs fell by 40,000 during the second quarter, making it the eighth consecutive quarterly decline.

The trend was also mirrored in the figures for first-time unemployment insurance claims. The number of weekly claims—which had steadily declined towards 360,000-per-week from 2011 to the first quarter of this year—jumped to 382,000-per-week during the second quarter. Following a similar pattern, the unemployment rate rose from 8.1 percent in April to 8.3 percent in July.

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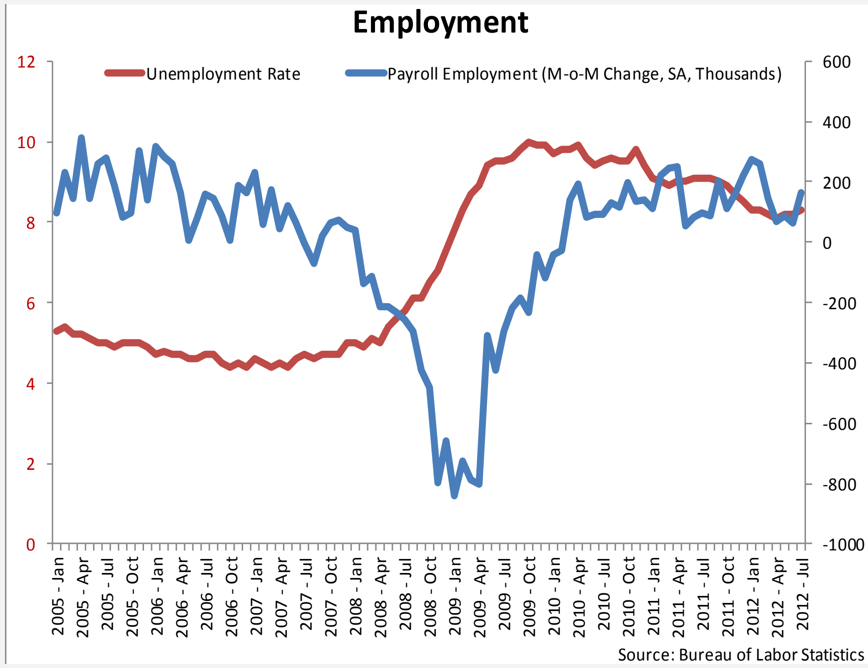

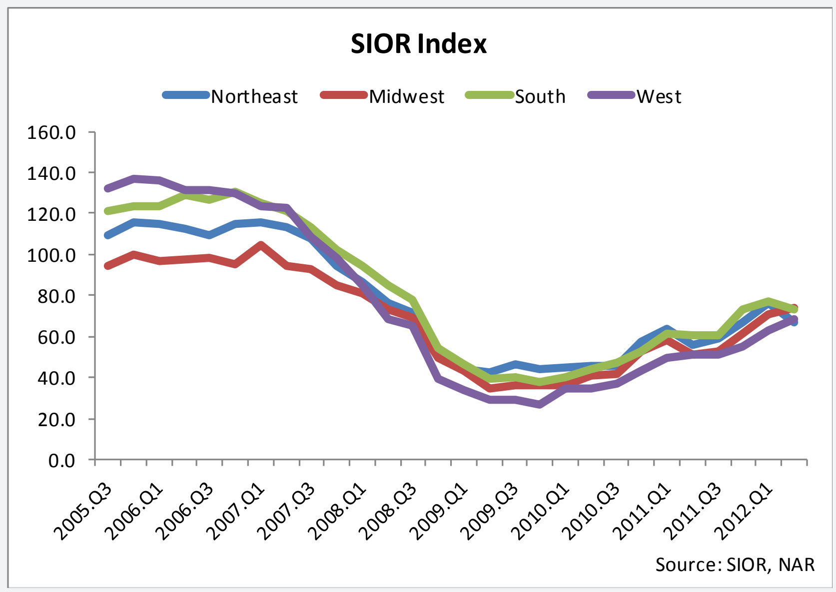

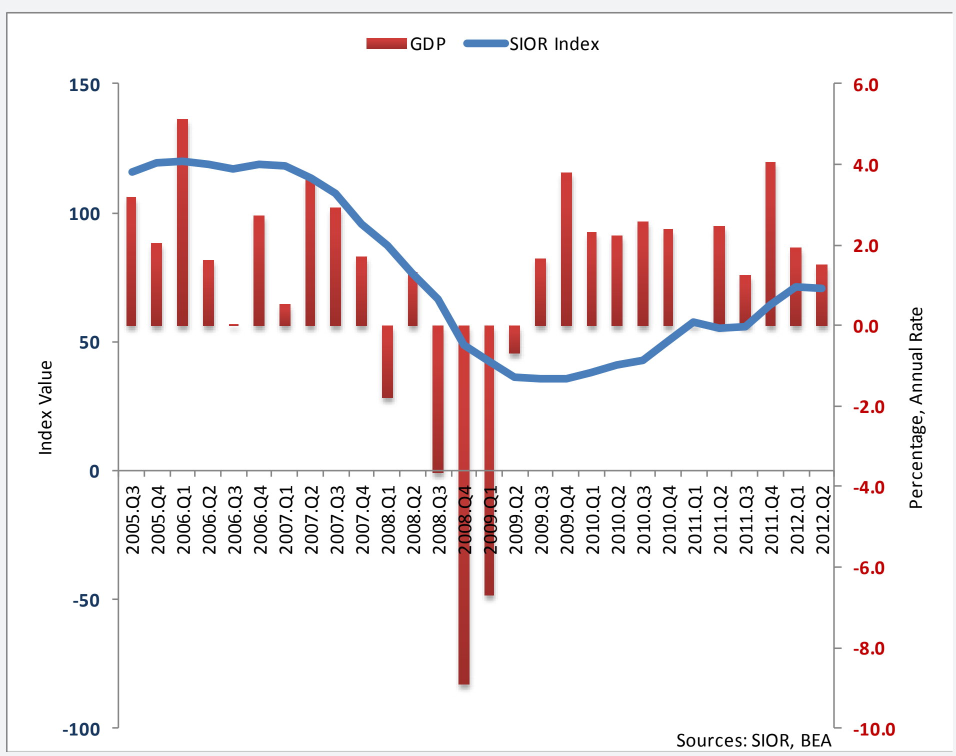

SIOR Index Results

After three quarters of consecutive gains, office and industrial spaces slowed during the second quarter. The Commercial Real Estate Index, representing second quarter 2012 data, declined 0.3 points. The national index, based on 10 variables pertinent to the performance of U.S. industrial and office markets, closed at 70.7. In a split, the office sector decreased 7.7 points to an index value of 61.9, while the industrial sector rose 4.7 points to 76.1, mirroring increases in demand for warehouses due to larger international trade volume.

The general stagnation in national economic conditions spilled over into commercial markets. Geographically, the Midwest and West showed improved conditions. The Midwest posted the highest nominal index value during the second quarter—74.3. Markets in the West improved the most over the quarter, advancing 5.4 points. The Northeast and South declined 9.4 points and 3.9 points, respectively.

With employment moderating, leasing activity took a step back, as almost two thirds of respondents found activity below historic levels. Vacancy rates notched down slightly—51 percent of SIORs pointed to vacancies which are lower than a year ago. Concessions remain the norm for 78 percent of respondents. In turn, rents flattened, as half of practitioners reported rents in line with or slightly above long-term averages. Subleasing availability was mostly unchanged from the first quarter, with 23 percent of SIORs reporting ample sublease space.

In an encouraging sign, construction of new commercial space is slowly moving upward—35 percent of practitioners mentioned there was new construction in their market, an improvement from the 15 percent figure a year ago. Development conditions continued to strengthen—as they remain in buyers' favor—acquisition prices were lower than construction costs in 76 percent of the markets. A weak national economy is acting as a drag on local economies and markets—81 percent of SIORs found the national economy to have a negative impact upon their markets (compared with 69 percent in the first quarter).

Looking at the broader landscape, commercial markets are following economic trends and treading water for the time being. SIOR members expect conditions to remain moderately positive in the second half of 2012—59 percent of respondents anticipate better markets in the next three months, while 32 percent project no change.