

## **NATIONAL OFFICE MARKET RECENT TRENDS AND FORECAST**

Prepared For:

**CUSTOMERS AND FRIENDS OF THE FIRM**

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## SUMMARY: NATIONAL ECONOMY GROWING METHODICALLY; OFFICE MARKET EXPANSION CONTINUES

**The U.S. economy continues to grow at a steady pace**, although high oil prices, rising interest rates, and a cooling housing market are reducing discretionary spending, GDP growth rates, and employment prospects.

To date in 2006, consumer spending has continued to rise, although at a slower rate than last year. The housing market has been cooling, as interest rates climb and house appreciation slows. Business spending has been steady, which has aided in continued national economic growth.

**Payroll jobs** rose by 1.7 million over the 12 months ending in July, compared to 2.2 million the year before. Growth of quality jobs remains high: over the 24 months ending May 2006, the Professional/Business Services sector accounts for nearly 23% of the new jobs and Education/Health sector accounts for another 21%.

**We expect the national economy to continue to grow into 2007, but at a decelerating pace.** Oil prices are likely to remain high, and the Fed probably is not through raising interest rates, both of which will dampen growth in 2007.

### Office Market Strengthening

**Office market conditions are strengthening around the country**, as the economy continues to grow and add jobs, although the rate of growth has declined in some metro areas.

**Net absorption of office space continues at a steady pace in 2006**, after rebounding sharply in 2004 and remaining healthy in 2005. Net absorption in the top 40 markets in the U.S. totaled 47.8 million SF in the 1<sup>st</sup> half of 2006, compared to 50 million SF in the comparable period in 2005.

**The nation's overall vacancy rate (including sublease vacancy) for office space declined to 11.0% at mid-year 2006**, from 12.6% a year earlier and 14.2% at mid-year 2004.

**Rents continue to rise in most markets**, particularly in Orange County (California) and New York. The strongest rent growth in the expansion period ahead will occur in New York, Southern California, South Florida, Phoenix and Washington.

**This expansion cycle will likely run until 2008 or 2009** unless interrupted by geopolitical events or excessive costs (energy, construction) slowing growth prematurely. The consensus of national economists suggests that a slowdown will occur by early 2009.

### Investment Sales at Record Levels

**Investment sales of commercial real estate assets continue to be solid in 2006.** Transaction volume of office buildings totaled more than \$35.6 billion in the 1<sup>st</sup> half of 2006. The attraction to commercial real estate continues to be created by superior returns relative to alternative investment options, such as the stock market. Private investors have been the most active buyers in 2006, followed by institutional investors and REITs.

**As investors continue to pursue real estate, they have driven prices up to record levels and cap rates down.** Priorities are shifting for some investors from buying income streams to finding ways to create them and adding long-term value to properties.

Sale prices have risen approximately 20% over the past year, with some markets experiencing substantially greater escalation. Prices jumped 32% in **Phoenix** and 27% in **South Florida**. Prices rose 23% in **Denver** and 16% in the **San Francisco Bay Area**, as both markets continue to recover from the tech market collapse in 2000.



# THE NATIONAL ECONOMY

## 3<sup>RD</sup> QUARTER 2006

### U.S. Economy Remains Healthy, But Growth Is Slowing; Indicators Suggest Moderating Expansion During Balance of 2006

**Overall, the national economic picture is a healthy one.** However, the U.S. economy appears past the sweet spot of the growth cycle. Robust growth continues this year, as evidenced by consistent job creation and capital investment. Unemployment is at the lowest point of the current business cycle, and the manufacturing sector continues to expand, albeit at a slower rate than last year.

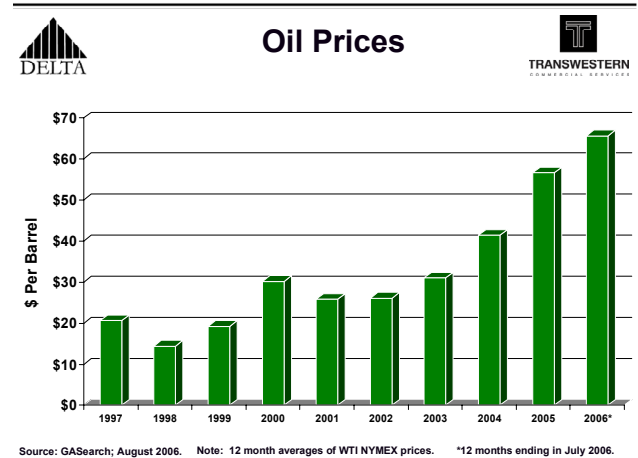
**Nevertheless, several indicators suggest moderating growth ahead.** The Federal Reserve has been able to keep inflationary pressure in check so far with consistent increases in short-term interest rates.

- The high **price of energy** – a key exception – is starting to cut into consumers' discretionary spending, and that trend may accelerate during the balance of the year.
- **Consumer confidence** has been trending downward.
- Similarly, businesses have been trimming **payroll hiring**, relying instead on contract workers, or the productivity gains of existing employees. This trend is not likely to slow economic growth dramatically in the near-term, but it does bear watching.

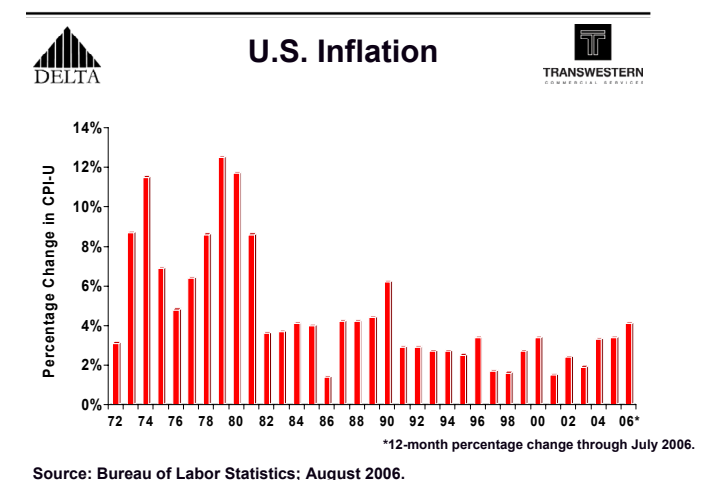
**Construction costs** remain high, bolstered by demand for raw materials from China and a shortage of qualified labor. Elevated steel and concrete prices are forcing developers to reassess their plans, as achieving rents high enough to offset development costs is a challenge in many markets. **Many commercial real estate projects do not pencil, even though demand for new space is healthy.**

**Oil prices** have been rising this year after a brief reprieve several months ago. The cost of fuel has cut into discretionary spending, and is likely to have a greater impact as the year continues. Oil prices spiked to \$70/barrel following Hurricane Katrina before retreating a

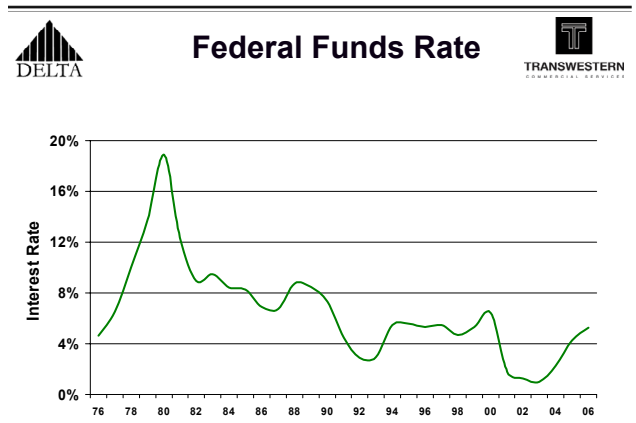
bit. The average price for the 12 months ending in July was \$65.63/barrel; the average price for July 2006 alone was \$74.46/barrel.



**Inflation** continues at a pace that the Fed finds unacceptable – prices were up 4.1% during the 12 months ending in July – and the Fed has responded with modest but consistent rate hikes, notwithstanding the break in June, when the central bank failed to raise short-term rates for the first time in 18 meetings. Raising rates has kept inflation for core goods and services under control, but fuel prices are rising much faster than prices for most other products.

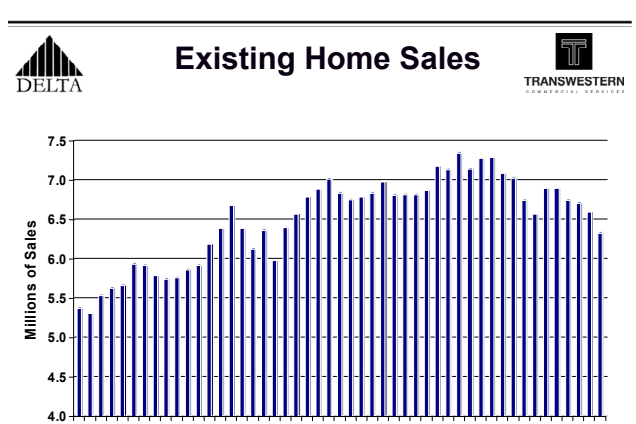


The Fed has raised short-term **interest rates** to 5.25% as of July 2006 in an effort to stave off higher inflation. The central bank may raise rates again in the Fall. Each of the last 17 rate hikes has been 25 basis points.



Source: Federal Reserve Board; August 2006.

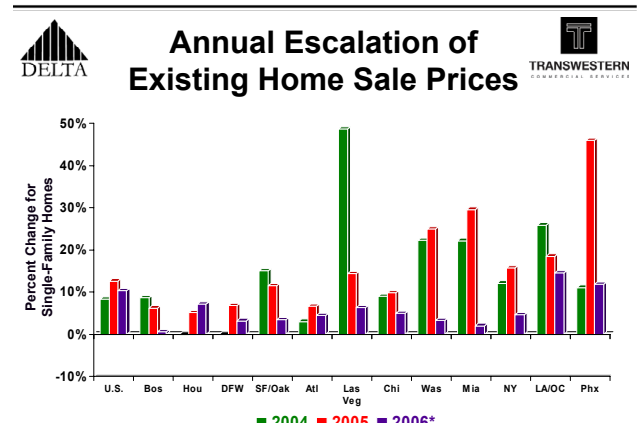
Although U.S. housing is better described as hundreds of different local markets rather than a single national market, the overall **housing** picture has softened. Most observers believe it is taking a much needed breather. Existing homes sold at an annualized volume of 6.33 million units through July 2006. Mortgage rates remain low – around 6.48% for a 30-year fixed loan – which is helping to keep some buyers in the market. Still, many potential buyers are taking more time to make a decision than they were a year ago, when delays meant losing out on a home.



Note: Through July 2006; annualized.

Source: National Association of Realtors; August 2006.

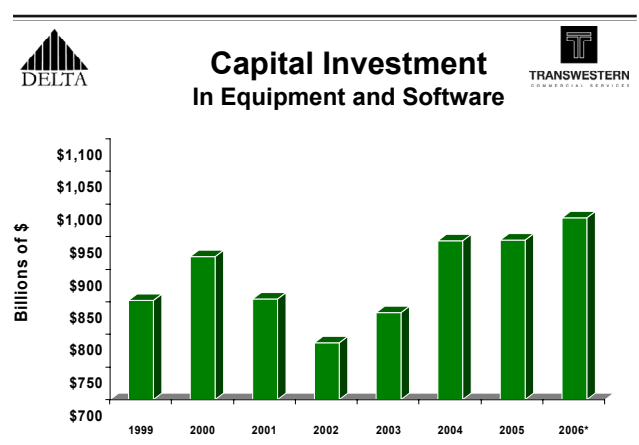
**Home prices** have cooled but remain high by historical standards. Nationally, home prices rose 12.6% in 2005. Only two major markets, Southern California and Phoenix, experienced gains of over 10% during the 12 months ending in June. Some overheated metro markets may experience trouble later this year due to the prevalence of interest-only loans and adjustable rate mortgages in combination with excessive supply.



\*12-month percentage change through June 2006.

Source: National Association of Realtors; August 2006.

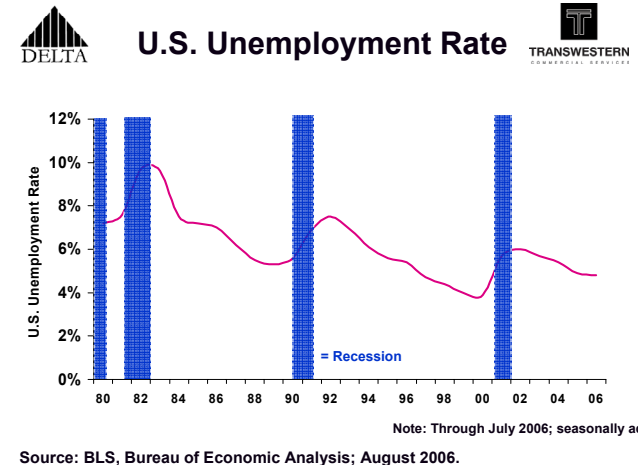
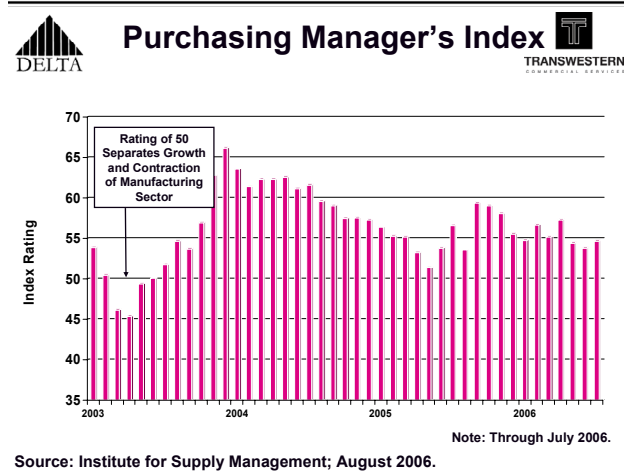
**Business spending** on high-tech equipment and software continues to increase. Spending in this category is well above the previous peak period in 2000, and was over \$970 billion for the 1<sup>st</sup> quarter of 2006, annualized. As a result, professional services companies are hiring at a steady pace to fulfill demand.



Source: Bureau of Economic Analysis; August 2006. Note: Figures are seasonally adjusted. \*Q1 2006 annualized.

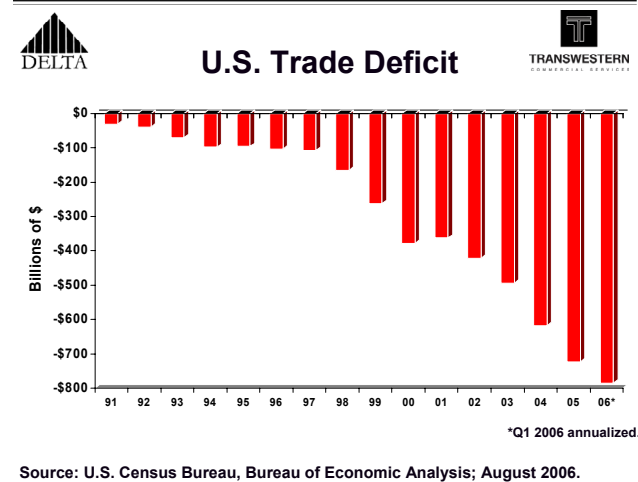
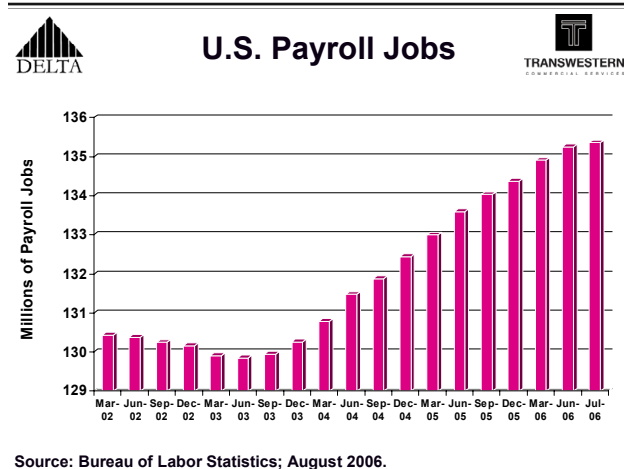
Production in the **Manufacturing** sector has grown for 38 consecutive months through July 2006. However, due to productivity gains, manufacturing employment generally has been declining. Recently, employment in this sector ticked up, with a gain of 17,000 employees for the 12 months ending in July 2006 (on a seasonally adjusted basis).

The U.S. **unemployment rate** is 4.8% as of July 2006. The unemployment rate has ticked up since May when it reached 4.6%, the lowest point of the current cycle.



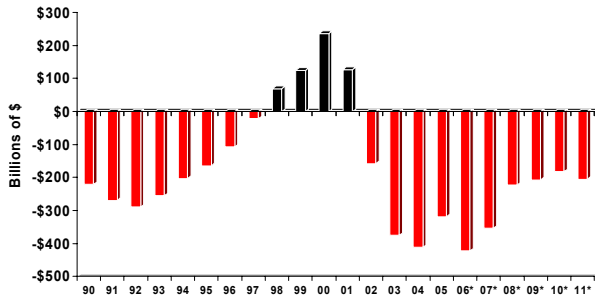
**Payroll jobs** rose by 1.7 million over the 12 months ending in July, compared to 2.2 million the year before. The pace of job growth remains healthy, but it has slowed a bit this year. Growth of quality jobs remains high: over the 24 months ending May 2006, the Professional/Business Services sector accounted for 23% of new jobs, while Education/Health accounted for 21%. The Education/Health sector is likely to remain a force for economic growth during the rest of the current business cycle.

The **trade deficit** continues to expand, and now totals \$784.9 billion (1<sup>st</sup> quarter annualized). The **federal budget deficit**, which recently had been projected to moderate slightly, likely will rise in 2006 as a result of government aid for the continuing Hurricane Katrina recovery effort and spending on the War in Iraq. The budget deficit for 2005 was \$318.3 billion; the current projection for 2006 by OMB suggests a deficit of \$423.2 billion. Most economists feel we must rein in our trade and budget deficits in order to assure long-term economic vitality.





## Federal Budget Deficit



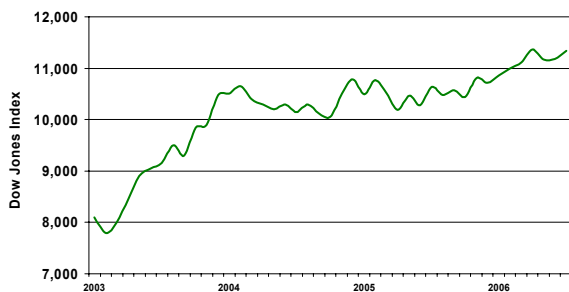
Source: OMB, CBO; August 2006.

\* Projected

The **stock market** – as measured by the Dow – has been holding around the 11,000 level for much of 2006, although by late August it was about 500 points above its final close in 2005. Will steady corporate profits and job growth keep it above 11,000 for good? And if so, will renewed interest in stocks lure investors away from real estate? We believe a Dow of 12,000 would siphon cash from real estate, but investors' fears of rising inflation have kept the Dow from reaching that benchmark so far in this cycle.



## Dow Jones Industrial Average



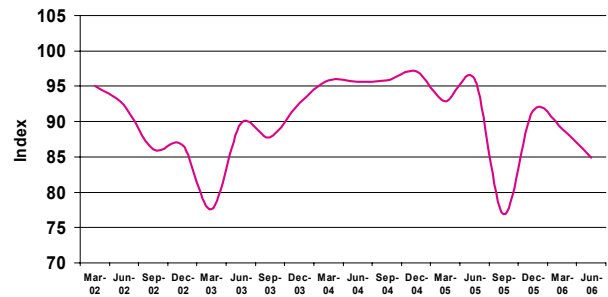
Note: Through July 2006.

Source: Dow Jones, Yahoo! Finance; August 2006.

**Consumer sentiment** declined during the 1<sup>st</sup> half of 2006 after finishing 2005 on a strong note. Rising oil prices clearly have taken a toll on consumers' optimism, and they are cutting back on discretionary spending. Consumer sentiment is now close to the level it was at immediately following Hurricane Katrina, and is lower than it was right after the September 2001 terrorist attacks.



## Consumer Sentiment

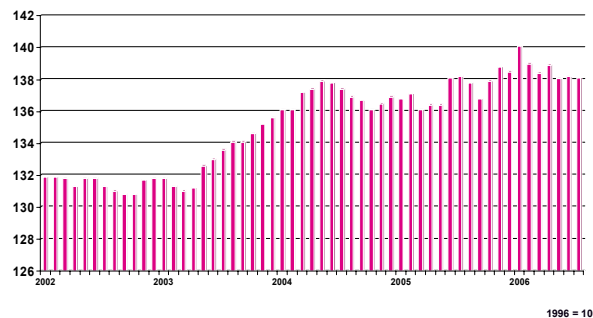


Source: University of Michigan, Federal Reserve Bank of St. Louis; August 2006.

The **leading economic indicators index** ticked down in July, although it remains at about the level where it finished 2005. The index of leading indicators was 138.1 in July. Over the last 12 months the index has been flat, suggesting that the national economic expansion will be gradual for the balance of the year.



## Leading Economic Indicators Index



Note: Through July 2006.

Source: The Conference Board; August 2006.

## Economic Outlook

***We expect the national economy will continue to grow in 2006, although the residual effects of high energy costs will limit upside.*** Inflation – and the Fed’s ability to keep it under control – will have a key impact on national economic performance during the balance of the year.

The Organisation for Economic Co-operation and Development (OECD) forecasts **U.S. GDP growth** in 2006 of 3.5%, supported by steady private consumption and business spending.

## National Payroll Job Growth Summary

U.S. payroll job growth remains healthy, adding 1.7 million positions over the 12 months ending July 2006. Those gains represent a growth rate of 1.3%. The pace of job growth has slowed slightly in 2006.

	<u>Job Change</u>	<u>% Change</u>
2006*	1,737,000	1.3%
2005	2,035,000	1.5%
2004	1,431,000	1.1%
2003	-349,000	-0.3%
2002	-1,490,000	-1.1%
2001	40,000	0.0%

\*12 months ending in July 2006; others are comparisons of annual averages.

<b>12-MONTH PAYROLL EMPLOYMENT CHANGE THROUGH JULY 2006</b>					
<b>Metro Area</b>	<b>Job Change</b>		<b>Metro Area</b>	<b>Job Change</b>	
	<b>#</b>	<b>%</b>		<b>#</b>	<b>%</b>
LA Basin			Philadelphia	30,700	1.1%
Los Angeles	48,200	1.2%	Tampa-St. Pete	29,000	2.3%
Riverside/San Bernardino	39,800	3.3%	Raleigh-Durham	29,000	4.0%
Orange County	<u>14,300</u>	1.0%	Salt Lake City	26,500	4.5%
Subtotal LA Basin	102,300	1.5%	Denver-Boulder	25,300	1.9%
Phoenix	90,300	5.1%	Boston	24,600	1.0%
New York	88,300	1.1%	Portland (OR)	24,400	2.5%
Washington, DC	73,400	2.5%	Charlotte	22,900	3.0%
Dallas/Ft. Worth	71,800	2.6%	Sacramento	20,400	2.3%
Seattle	63,000	3.8%	San Diego	18,800	1.5%
South Florida			Austin	18,500	2.7%
Fort Lauderdale	30,300	3.8%	Nashville	18,100	2.5%
West Palm Beach/Boca Raton	17,700	3.1%	Baltimore	17,900	1.4%
Miami	<u>16,300</u>	1.6%	Kansas City	17,300	1.8%
Subtotal South Florida	64,300	2.7%	Jacksonville	17,000	2.8%
Houston	59,000	2.5%	San Antonio	15,000	1.9%
Atlanta	53,200	2.3%	St. Louis	14,800	1.1%
Chicago	52,400	1.2%	Cincinnati	14,000	1.3%
Las Vegas	48,900	5.6%	Oklahoma City	9,700	1.8%
Minneapolis-St. Paul	48,000	2.7%	Pittsburgh	8,000	0.7%
Bay Area			Memphis	7,400	1.2%
Oakland	24,900	2.4%	Columbus	6,600	0.7%
San Francisco	14,200	1.5%	Cleveland	1,500	0.1%
San Jose	<u>2,300</u>	0.3%	Indianapolis	-3,900	-0.4%
Subtotal Bay Area	41,400	1.5%	Detroit	-76,100	-3.7%
Orlando	41,000	4.0%	New Orleans	-173,000	-28.4%

Source: Bureau of Labor Statistics, Delta Associates; August 2006.



# NATIONAL OFFICE MARKET: RECENT TRENDS AND FORECAST

*Despite the deceleration of job growth in most metro areas over the last few months, the economy continues to grow at a steady pace.* As a result, office market conditions remain strong around the country.

*However, we believe that this cycle's peak performance, in terms of net absorption of space, will not match the peak of the last cycle in 2000.* As noted in the last section, national economic indicators suggest steady but modest growth through 2009. By 2010, the expansion cycle is likely to be winding down. Because of the lag time between job growth and absorption, we do not expect a precipitous dropoff, but caution is warranted for those planning to deliver space in 2008 or later in many markets.

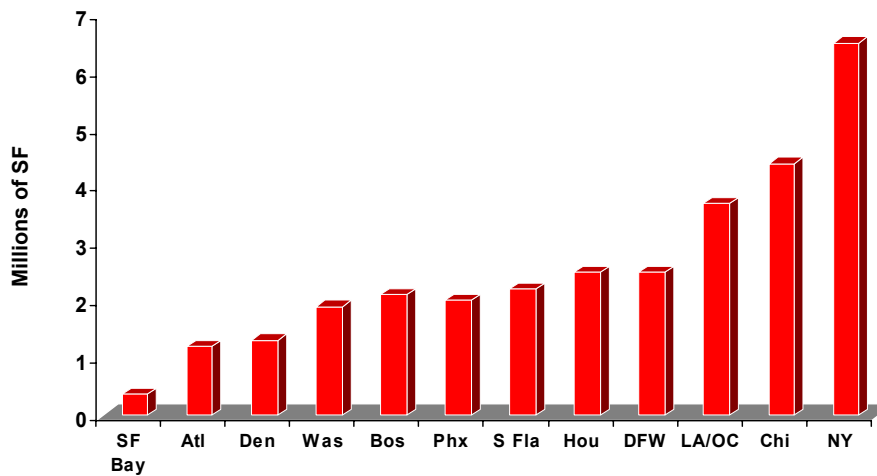
## Office Space Net Absorption

*So far in 2006 net absorption of office space has kept a steady pace,* with some areas nearly doubling the amount of space absorbed in 2005. Net absorption in the top 40 markets in the U.S. totaled 47.8 million SF in the 1<sup>st</sup> half of 2006, compared to 50 million SF in the comparable period in 2005.

Growth in the **New York** metro remains constant, with 6.5 million SF of net absorption in the 1<sup>st</sup> half of 2006; **Chicago's** continued expansion led to 4.4 million SF being absorbed so far this year. **Southern California's** market fundamentals continue to support strong performance while the **Washington** office market experienced a slower first half than anticipated, due to modest demand over the past six months. Meanwhile, activity in **Boston, Dallas/Ft. Worth, and Houston** is increasing at a steady pace.



## Net Absorption of Office Space Select Metro Areas 1<sup>st</sup> Half 2006



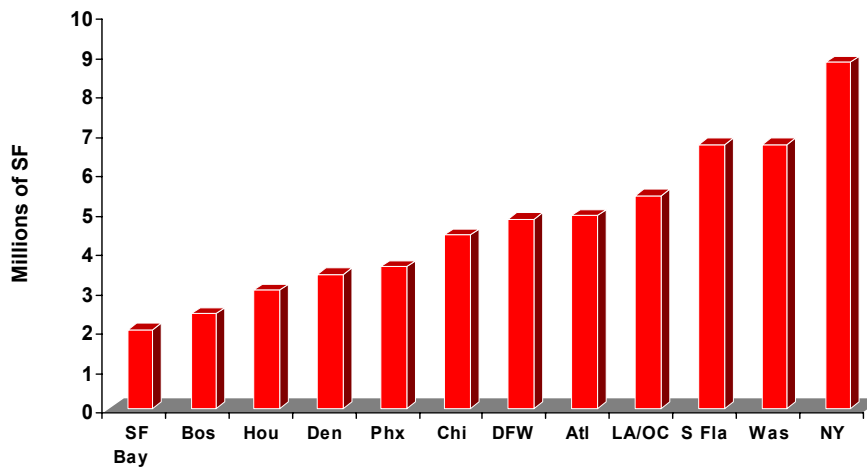
Source: Delta Associates; August 2006.

**New York, Washington, and South Florida** will likely lead the nation in office space absorption in this cycle. Steady growth in corporate America and continued recovery in the Financial Services sector are fueling growth in New York. In Washington, the ramp up in defense, security and intelligence is driving the market, although Washington was ahead of the curve in 2003-05 and now is easing back.

A high fraction of office-using employment in **Atlanta** will drive absorption there, while strong population growth and economic conditions are driving **Southern California's** market (See Table 1, Appendix 1). **South Florida** is benefiting from increased business activity with Central and South America.



### Projected Net Absorption Per Annum Select Metro Areas 2004 Through 2010



Source: Delta Associates; August 2006.

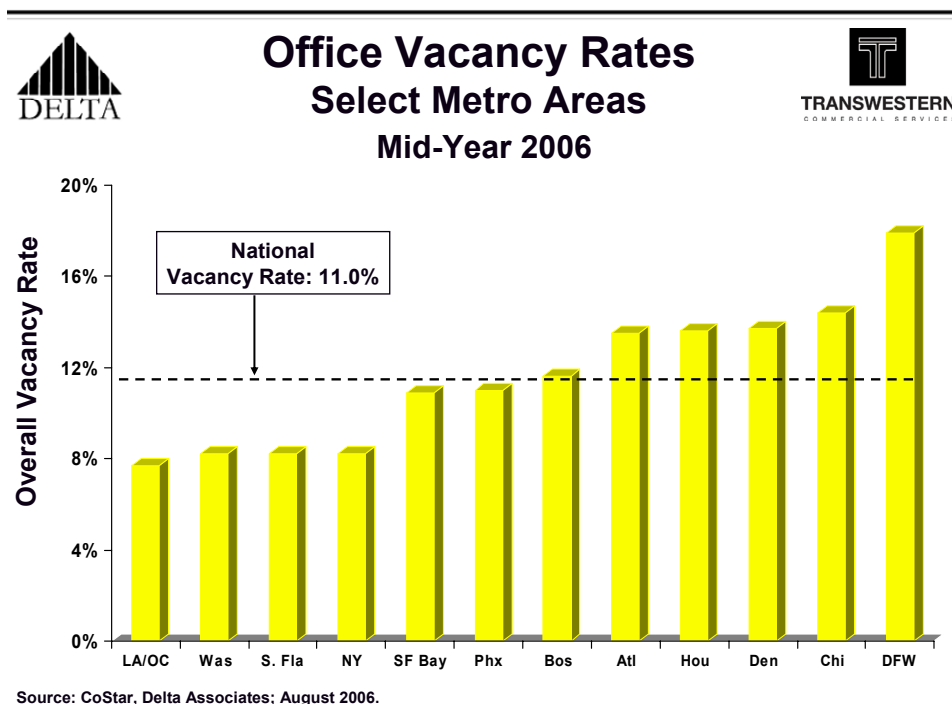
Market	Avg. Annual Net Absorption In Millions of SF	
	1990s Expansion	Projected 2004-2010
New York	9.8	8.8
Washington	7.0	6.7
South Florida	6.9	6.7
Atlanta	7.1	4.9
Dallas/Ft. Worth	5.7	4.8
Chicago	5.6	4.4
Phoenix	5.3	3.6
Denver	4.0	3.4
Houston	3.7	3.0
Orange County	3.1	2.8
Los Angeles	3.8	2.6
Boston	2.7	2.4
San Francisco Bay	2.3	2.0
Austin	2.4	1.9
<b>Total</b>	<b>69.4</b>	<b>58.0</b>

Source: Delta Associates.

The projected average annual net absorption amount for the current expansion cycle (2004-2010) was adjusted downward since last year's report. This adjustment is due to declining job growth in most of the major markets and a reduction in the amount of space needed for business operations, stemming from office space being used more efficiently and contract employment becoming more popular. Still, at 58.0 million SF of annual absorption, the major U.S. office markets should remain healthy for the next few years.

## Office Vacancy Rates

**The nation's overall vacancy rate (including sublease vacancy) for office space declined to 11.0% at mid-year 2006**, from 12.6% a year ago and 14.2% at mid-year 2004. Vacancy declined in all major markets over the past year. **Orange County's** vacancy rate dropped to 6.3% at mid-year 2006, from 7.7% a year ago. **Phoenix's** vacancy declined 230 basis points – from 13.3% a year ago, to 11.0% at mid-year 2006.



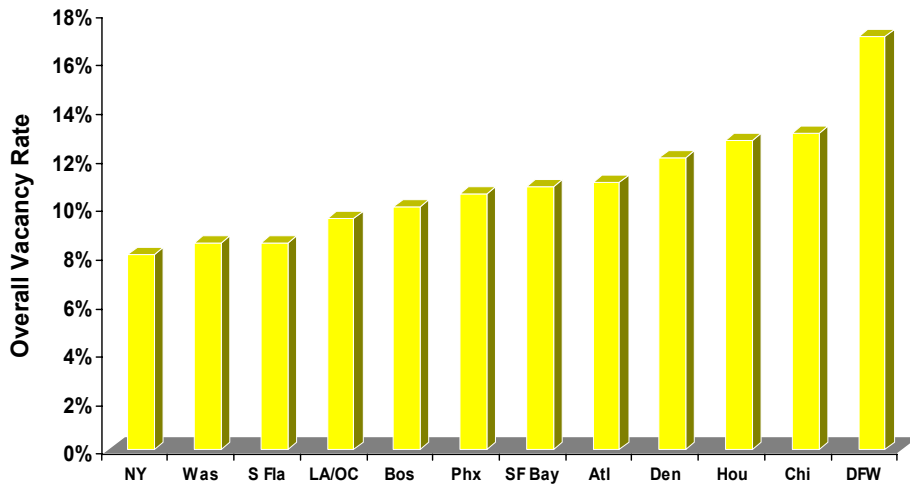
Average vacancy rates have trended lower over the past two decades, as markets have matured, and the cycle ahead will likely be no exception. Following the recent downturn, vacancy rates were lower in most markets compared to the level of the early 1990s. As a result, the average vacancy rate in these markets through 2010 will be lower than they were in the 1990s.

**New York, Washington, South Florida, and Orange County** will likely maintain the lowest average vacancy rates during the current business cycle – at or below 9%.

At the high end, **Dallas/Ft. Worth's** vacancy will average approximately 17%. Although this level is elevated, it is well below its average of the prior cycle. **Chicago** and **Houston's** vacancy will average approximately 13% (See Table 2, Appendix 1).



## Projected Average Vacancy Rate Select Metro Areas 2004 Through 2010



Source: Delta Associates; August 2006.

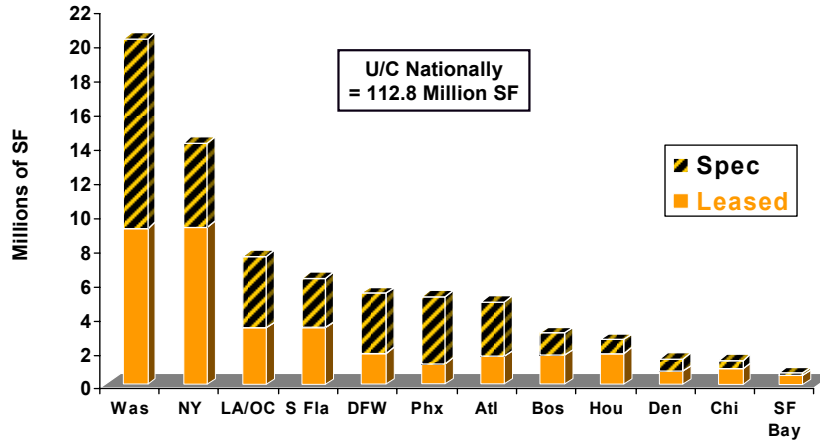
### Office Development

Levels of new office construction have picked up in most markets. **Washington** and **New York** continue to lead the pack with record levels of office space under construction. The 20.2 million SF under construction or renovation in the Washington metro is 45% pre-leased.

In the New York metro, 65% of the 14.1 million SF under construction is pre-leased. Nationally, 43.2% of the office space under construction is pre-leased.



## Office Space Under Construction Select Metro Areas Mid-Year 2006



Source: CoStar, Delta Associates; August 2006.

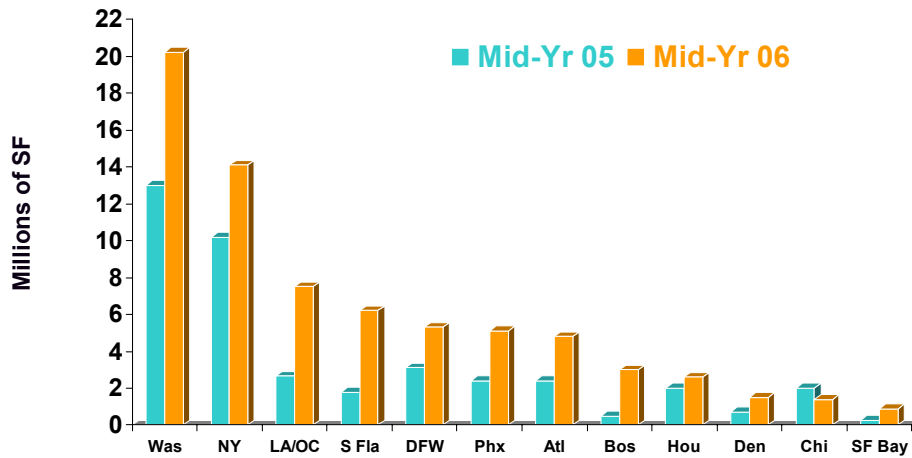
### Trends in Development

Across the country the amount of space under construction has risen significantly in 2006. Healthy markets with consistently low vacancy rates, steady job growth, and rising rents have caught the attention of developers whose response has been record levels of construction activity. However, development should be done on a site-specific basis to maximize value, given the recent deceleration of job growth and the high cost of construction.

Of note – construction began on the 2.6 million square foot Freedom Tower in New York City, slated to be completed in 2011. In June, the Federal Government signed a letter of intent to lease nearly one-fourth of the office space at the Freedom Tower, making it the first tenant of the symbolic skyscraper.



## Construction Activity Select Metro Areas Mid-Year 2005 vs. Mid-Year 2006



Source: CoStar, Delta Associates; August 2006.

### **Green Building Gains Popularity**

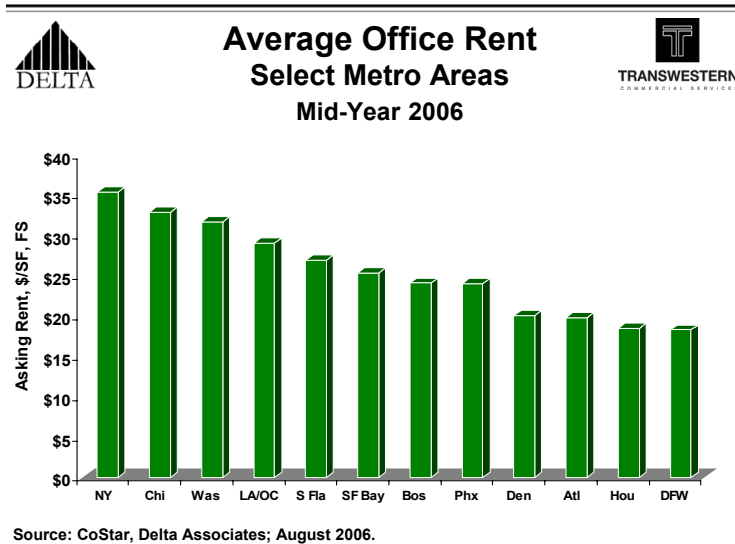
As energy prices continue to escalate with the cost of oil approaching \$70 a barrel, some commercial building owners have begun to explore alternative options to reduce long-term operating costs associated with running a commercial building. Owners of older buildings are looking for ways to save energy through green renovation techniques and owners of some new properties are embracing green construction practices. These practices involve innovations that increase efficiency in the use of energy by concentrating efforts on the

materials, lighting, and heating and cooling systems used in buildings. The Energy Information Administration's short-term energy outlook for August 2006 reported a 5.7% increase in energy use by the commercial sector since this time last year. Improvements in building construction techniques along with efficient management should lead to a reduction in long-term costs associated with operating office buildings. Still, the question remains: Will tenants pay more for the long-term benefits of occupying a green building?

## Office Rents

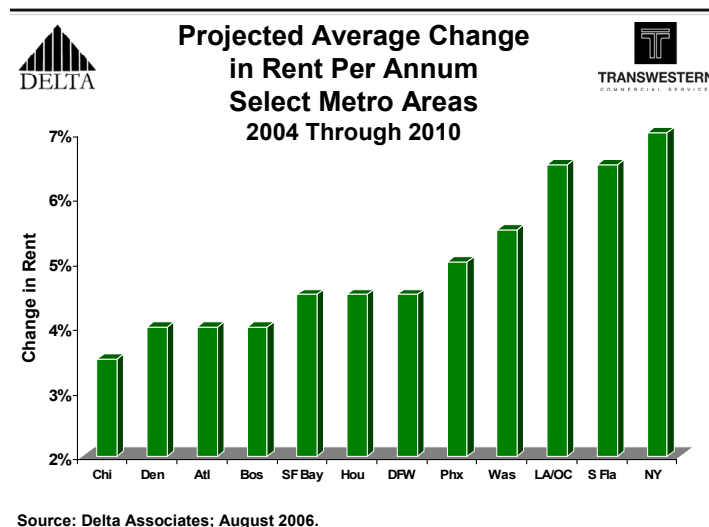
Rental rate increases are occurring in most markets, particularly in **Orange County** and **New York**. Rents rose 3.0% in Orange County in the 1<sup>st</sup> half of 2006 and 3.5% in the New York metro. Rents rose in **Houston** and in **Dallas/Ft. Worth** in the 1<sup>st</sup> half of 2006, while

they declined modestly in the **San Francisco Bay** area. In **Chicago**, metro area rents have been flat with modest increases being seen in the West Loop in the last couple of months as vacancy begins to tick down.



The strongest rent growth in this expansion cycle will likely occur in **New York, Southern California, South Florida, and Washington**. Strong job growth coupled with low vacancy and a scarcity of available land are contributing to rising cost in these markets. **Chicago** will likely experience the mildest rent escalation,

due to slow growth and overbuilding in the CBD during its last expansion cycle (See Table 3, Appendix 1). However, the Chicago market has made strong enough gains in job growth recently that some rent traction is now occurring.

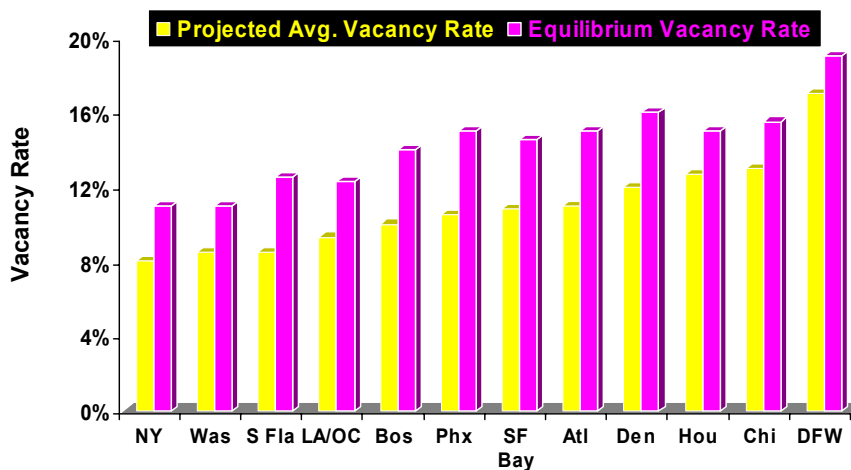


The average vacancy rate in this expansion will likely be below the equilibrium vacancy rate by a considerable margin in all markets. The equilibrium vacancy rate represents the point at which supply and demand are in balance and rents are stable. When the vacancy rate dips

below this point, rents rise. When the vacancy rate rises above this point, rents decline. The equilibrium vacancy rate is based on historic trends and varies from market to market.



### Projected Average Vacancy Rate vs. Equilibrium Vacancy Rate Select Metro Areas 2004 Through 2010



Source: Delta Associates; August 2006.

### Office Market Outlook

**The expansion cycle of the office market is well underway**, powered by steady economic growth, corporate profits and the elimination of excess capacity over the past several years. Businesses are re-investing in technology and equipment and are expanding their workforces. Although job growth has slowed a bit this year, demand for office space is still on the rise.

**We expect absorption of office space to increase over the next two years**, as the economic expansion reaches maturity. Upon reaching maturity, a tightening labor market will likely cause slower job growth, reducing the demand for office space. Between 2008 and 2009 we believe a shift in economic conditions along with a decline in job growth will lead to a slowdown in the economy, reducing the amount of space needed for business operations. Business decision makers are likely to respond

by attempting to decrease the cost of operations through scaling back on the amount of SF leased per worker. This change will account for a significant decrease in the amount of space absorbed and should be noticed in the market by 2010.

**Vacancy rates will continue to decline and rental rate escalation will increase over the next several years** until new supply catches up to demand in the latter stages of this expansion cycle and decision makers' space requirements change. Given the current high levels of construction, supply-demand balance could come as soon as 2008.

**This expansion cycle will likely run until 2008 or 2009**, with the possibility of geopolitical events or excessive costs (energy, housing) containing growth in the outer years.

## OFFICE INVESTMENT TRENDS: STILL BOOMING

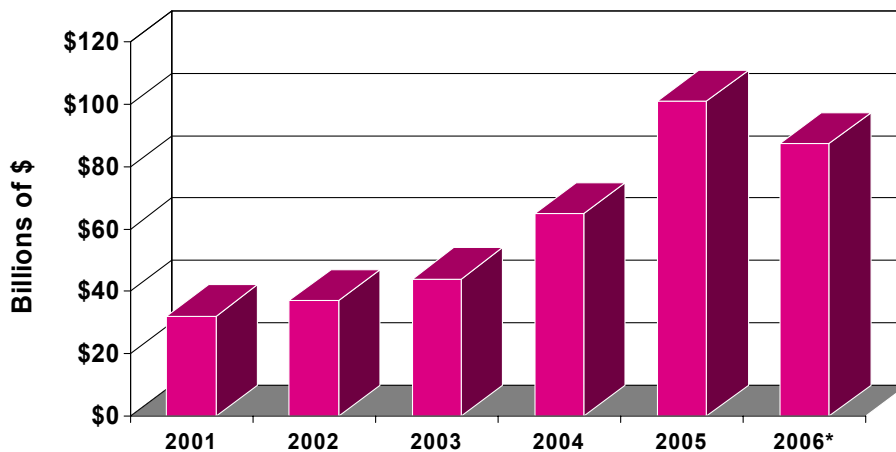
**Investment sales of commercial real estate assets continue at a record pace in 2006.**

Transaction volume of office buildings totaled more than \$35.6 billion in the 1<sup>st</sup> half of 2006. Despite record volume, there is a growing sense that the pace of sales is slowing. Real Capital Analytics reported an 8% increase in volume in the 2<sup>nd</sup> quarter of 2006 (compared to the same quarter in 2005), which was significantly below the 25% to 50% increases over the past two years. Prices for investment properties are still increasing, but the rate of property appreciation is decelerating.

The attraction to commercial real estate investment continues, due to superior returns compared to alternative investment options. Private investors have been the most active buyers in 2006, followed by institutional investors and REITs. As investors continue to pursue real estate, they have driven prices up to record levels and cap rates down. Now the challenge for many investors involves finding a way to compensate for the return lost to lower cap rates. Priorities are shifting for some investors from buying income streams to finding ways to create them and adding long-term value to properties.



### National Investment Sales of Office Buildings 2001 Through Mid-Year 2006



Source: Real Capital Analytics, Delta Associates; August 2006.

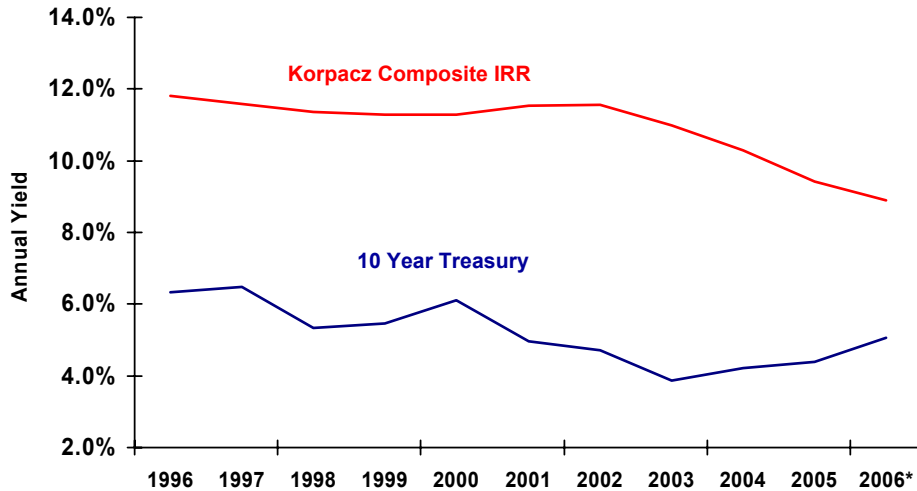
\*1<sup>st</sup> Half 2006 data annualized.

Interest Rates: The Federal Reserve Board has raised short-term rates from their low point of 1.0% in 2003 to 5.25% as of August 2006, which ended the longest chain of interest rate hikes in Federal Reserve history.

Meanwhile, the 10-Year Treasury has been declining and was at 4.74% in August, resulting in investors continuing to leverage capital as much as possible.



## Yield Comparisons



Source: Korpacz/PwC, Federal Reserve; August 2006.

\*YTD through April

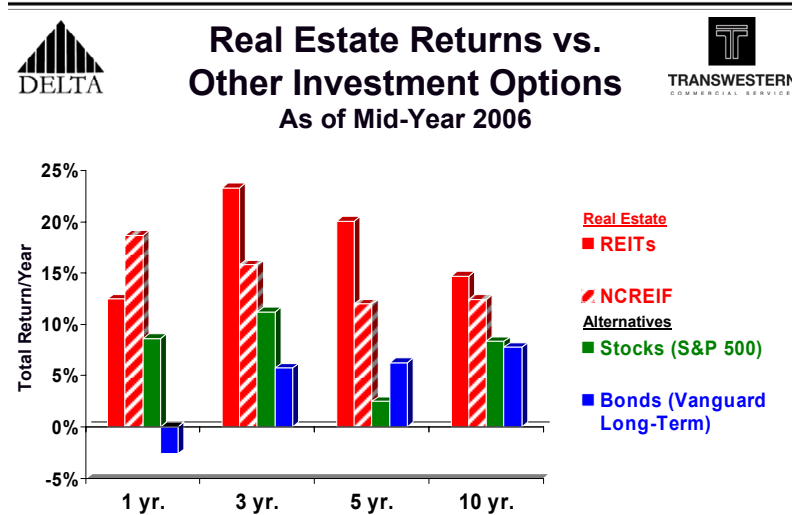
Historically low interest rates have kept delinquencies and foreclosures very low in this cycle compared to the early-1990s. And with market conditions improving around the country and rents rising, fewer loans are likely to become delinquent. However, investors who have been counting on continued aggressive appreciation are likely to be disappointed.

Fed Hopes for Soft Landing: Experts believe the Fed's decision to keep rates steady at 5.25% in August 2006 came from signs that the economy is starting to slow down. Still, some inflation risk remains, suggesting rates are likely to rise again later this year. The Fed strategy revolves around taming inflation, in hope of

steering the economy into a soft landing without causing a large increase in unemployment. Many economists believe that a soft landing theory is wishful thinking and that a substantial amount of job loss will have to occur before inflation subsides. *The New York Times* reported that the only true soft landing the Fed achieved was in 1994-95 under the leadership of Alan Greenspan, when it was able to slow the economy enough to cool spending, ease inflation, and avoid a huge jump in unemployment. But times have changed; now economic conditions such as escalating crude oil prices and a slowing residential market stand to make a soft landing difficult to achieve.

Returns: REITs continue to experience solid returns, performing better than the broader stock market and bonds. As a result, investors, led by the institutions, continue to pour

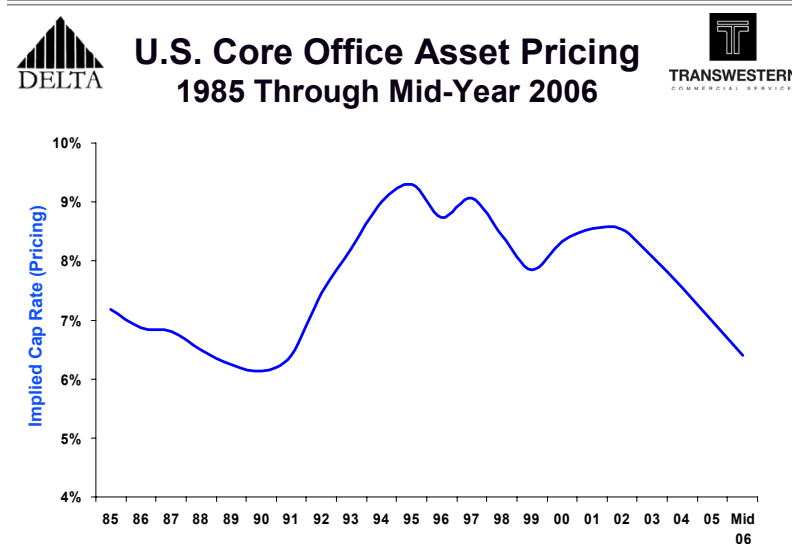
investment funds into real estate. Many institutional investors are still placing money into real estate that was earmarked for that sector a year or two ago.



Source: NAREIT, NCREIF, Vanguard, Delta Associates; August 2006.

With interest rates rising, we believe cap rates will moderate their decline and will eventually begin rising in this cycle. According to Real Capital Analytics, the average cap rate in the

U.S. is 6.4% for core office assets – nearly as low as in 1989. At that, it appears to be time for cap rates to being their cyclical migration upward.



Source: Delta Associates, CoStar; August 2006.

Total returns have remained high over the past year, with rents and occupancy rates rising steadily and prices rising sharply. **Phoenix** and **Southern California's** returns lead the nation at mid-year 2006, and **Denver** and **Houston** have started to see exceptional returns. Meanwhile, **Chicago** continues to rebound. **Washington**, which had led the nation for several years, remains strong. However, it is at a more mature part of the cycle than most other U.S. markets, and its relative performance is declining.

The largest office markets with the healthiest fundamentals and highest returns continue to attract the most capital. The Bay Area has returned to favor with sales volume around \$3.6 billion for the first half of 2006, as its market conditions continue to show improvement.

NCREIF Return Index <sup>1</sup> Office Properties	
Metro Area	12-Month Total Return at Mid-Year 2006
Phoenix	34.5%
Southern California	27.6%
New York	22.5%
Washington	20.5%
<b>National Average</b>	<b>20.0%</b>
Denver	19.9%
Houston	18.9%
Boston	18.0%
South Florida	17.2%
Chicago	17.2%
San Francisco Bay	16.3%
Dallas	14.6%
Atlanta	13.0%

<sup>1</sup>NCREIF index includes both current income and capital appreciation returns.

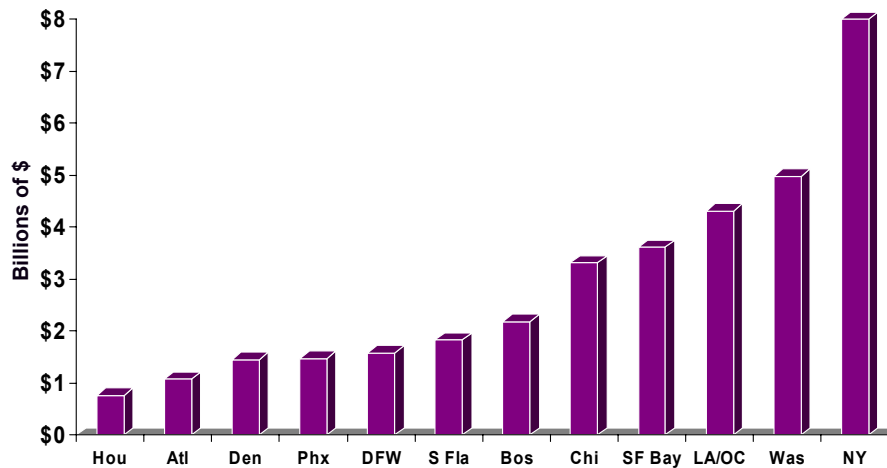
Source: NCREIF, Delta Associates; August 2006.



## Office Investment Sales Volume Select Metro Areas 1st Half 2006



TRANSWESTERN  
COMMERCIAL SERVICES



Source: Real Capital Analytics, Delta Associates; August 2006.

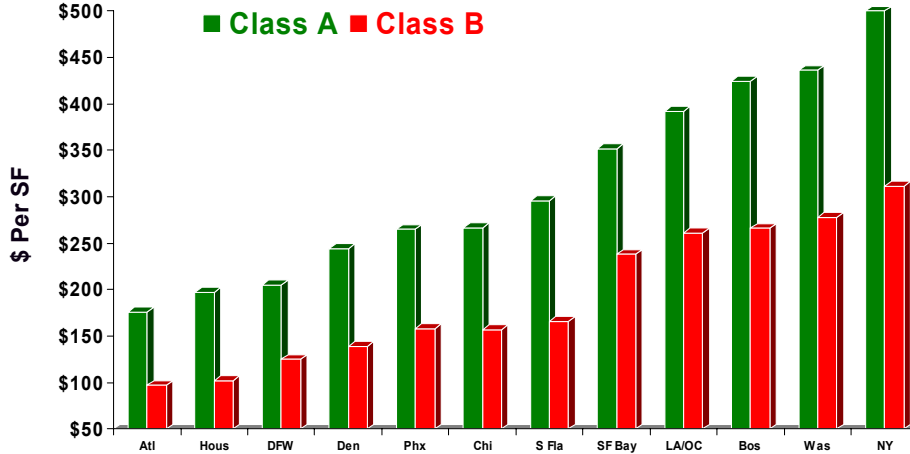
\*Time period covered is January – June.

Sale prices have risen approximately 20% nationally over the past year, with some markets experiencing substantially greater escalation. Prices jumped 32% in **Phoenix** and

27% in **South Florida**; they rose 23% in **Denver** and 16% in the **Bay Area**, as both markets continue to recover from the tech market collapse early in this decade.



## Average Office Sales Prices Select Metro Areas 1st Half 2006



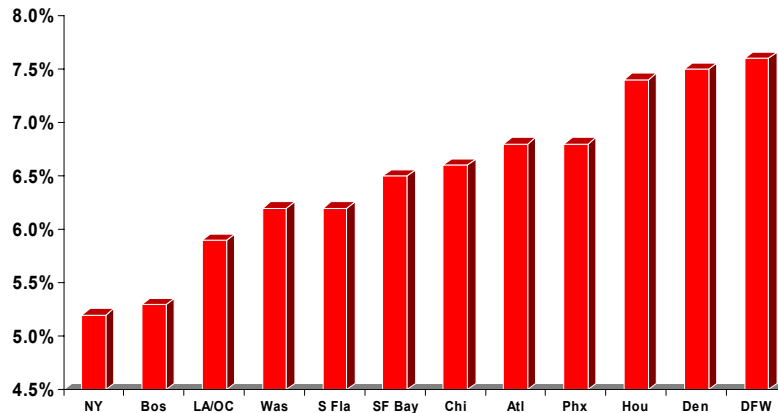
Source: Real Capital Analytics, Delta Associates; August 2006.

Cap rates declined by an average of 102 basis points over the past 12 months for all classes of office space, to 6.5%, according to Real Capital Analytics. This average may be artificially low due to some reporting bias. However, cap

rates clearly remain low, especially in major markets. They have declined to 5.2% in **New York**, 6.2% in **Washington**, and in **Dallas/Ft. Worth** they are approximately 7.5%.



## Average Office Cap Rates Select Metro Areas 1st Half 2006



Source: Real Capital Analytics, Delta Associates; August 2006.

### Top Buyers of Office Buildings in 2006

According to Real Capital Analytics, REITs and foreign buyers have continued to settle for lower yields in exchange for assets that meet their criteria, while rising interest rates have caused some private investors to think long and hard about assets generating a cap rate lower than 7.0%. REITs remain very active, as they continue to reinvest funds to fuel FFO. Following are the top investors of office assets in the 1<sup>st</sup> half of 2006:

- Tishman Speyer
- ING Clarion Partners
- RREEF Funds
- DRA Advisors
- Macquarie
- CB Richard Ellis Investors
- Equity Office Properties
- Hudson Waterfront Associates
- LaSalle Investment Management
- Colonial Properties Trust
- Triple Net Properties

**Appendix 1**  
**Summary Tables**



TABLE 1

**PROJECTED AVERAGE ANNUAL JOB GROWTH AND NET OFFICE ABSORPTION**  
**SELECTED METRO AREAS**  
**2004 THROUGH 2010**

Market	2003 <sup>2</sup> Employment	July 2006 Employment	Projected Job Growth Per Annum 2004-10	Projected Growth Rate Per Annum	Projected Net Absorption Per Annum	Projected Net Absorption Per New Job
					(Square Feet)	
Atlanta	2,236,900	2,385,300	59,400	2.5%	4,900,000	82
Austin	653,000	709,100	25,100	3.5%	1,900,000	74
Boston	2,406,200	2,441,500	20,800	0.8%	2,400,000	115
Chicago	4,412,800	4,549,900	60,700	1.3%	4,400,000	72
Dallas/Ft. Worth	2,665,500	2,830,200	78,600	2.7%	4,800,000	61
Denver	1,156,800	1,382,500	42,000	3.0%	3,400,000	80
Houston	2,273,900	2,409,900	64,300	2.6%	3,000,000	47
Los Angeles	3,982,900	4,029,800	43,000	1.0%	2,600,000	61
New York <sup>1</sup>	8,251,000	8,455,600	88,200	1.0%	8,800,000	100
Orange County	1,429,000	1,508,800	44,300	2.8%	2,800,000	63
Phoenix	1,619,800	1,852,000	81,300	4.4%	3,600,000	44
SF Bay Area	2,845,900	2,884,900	28,400	1.0%	2,000,000	72
South Florida	2,228,800	2,413,900	95,600	3.8%	6,700,000	70
Washington	2,783,700	3,007,100	58,300	2.0%	6,700,000	115

<sup>1</sup> In previous publications the New York-White Plains-Wayne, NY-NJ (Metropolitan Division) from BLS was used to reflect job growth statistics for New York. We now are using the New York-Northern New Jersey-Long Island (NY-NJ-PA) area to reflect job growth statistics for a broader area.

<sup>2</sup> 2003 employment is being shown as the base year for the current expansionary period of 2004-2010. Although we expect job growth to slow by 2009, net office absorption should remain positive until 2010 because of the lag time between decisionmaking and implementation.

TABLE 2

**PROJECTED AVERAGE VACANCY RATE**  
**SELECTED METRO AREAS**  
**2004 THROUGH 2010**

Market	Vacancy Rate at Mid-Year 2006	Projected Average Vacancy Rate 2004-2010	Equilibrium Vacancy Rate	Spread
Austin	13.4%	11.0%	16.0%	5.0%
Phoenix	11.0%	10.5%	15.0%	4.5%
South Florida	8.2%	8.5%	12.5%	4.0%
Boston	11.6%	10.0%	14.0%	4.0%
Atlanta	13.5%	11.0%	15.0%	4.0%
Denver	13.7%	12.0%	16.0%	4.0%
Orange County	6.3%	8.0%	12.0%	4.0%
San Francisco Bay Area	10.9%	10.8%	14.5%	3.7%
New York	8.2%	8.0%	11.0%	3.0%
Los Angeles	8.2%	10.0%	12.5%	2.5%
Washington	8.3%	8.5%	11.0%	2.5%
Chicago	14.4%	13.0%	15.5%	2.5%
Houston	13.6%	12.7%	15.0%	2.3%
Dallas/Ft. Worth	17.9%	17.0%	19.0%	2.0%

Source: Delta Associates, REIS; August 2006.

TABLE 3

**PROJECTED AVERAGE CHANGE IN RENT PER ANNUM**  
**SELECTED METRO AREAS**  
**2004 THROUGH 2010**

Market	Average Annual Change in Rent 1990's Expansion	Change in Rent 1st Half 2006	Projected Average Annual Change in Rent 2004-2010
New York	6.3%	3.5%	7.0%
Orange County	3.6%	3.0%	6.5%
South Florida	3.8%	3.0%	6.5%
Washington	4.8%	1.3%	5.5%
Los Angeles	2.4%	3.4%	5.5%
Phoenix	6.4%	3.6%	5.0%
Austin	8.6%	1.5%	5.0%
San Francisco Bay Area	11.6%	-0.3%	4.5%
Houston	3.9%	0.8%	4.5%
Dallas/Ft. Worth	4.9%	0.1%	4.5%
Boston	8.4%	2.5%	4.0%
Atlanta	4.1%	1.5%	4.0%
Denver	7.9%	2.3%	4.0%
Chicago	3.9%	-1.9%	3.5%

Source: Delta Associates; August 2006.



## **Appendix 2**

### **Metro Area Reviews: Core Industries and Office Market Conditions at Mid-Year 2006**



# ATLANTA METRO



## Core Industries Atlanta Metro 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Tech/Telecom	\$24	12%
Distribution	\$22	11%
Business Services	\$11	5%
Transportation	\$12	6%
Conventions/Hospitality	<u>\$11</u>	<u>5%</u>
Total Core Industries:	\$80	39%
Other	<u>\$126</u>	<u>61%</u>
<b>Total GRP:</b>	<b>\$206</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 53,200 over the 12 months ending July 2006. The Atlanta metro will likely add close to 59,400 jobs per annum in this expansion cycle.

**Local Economy:** Continued population growth, Tech sector strength, and steady expansion in the Professional and Business Services and Distribution sectors are fueling Atlanta's economy.

**Scale of Office Market:** 217 million SF.

**Absorption of Office Space:** 2.5 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 4.9 million SF per annum in this expansion cycle.

**Vacancy Rate:** 13.5% at mid-year 2006. Likely to average 11% this expansion cycle.

**Space Under Construction:** 4.8 million SF at mid-year 2006; 2.2% of standing inventory; 34% pre-leased.

**Rents:** Up 1.5% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 4% to 5% per annum this expansion cycle.

# AUSTIN METRO



## Core Industries Austin Metro 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
High-Tech	\$8.2	15%
Government	\$6.6	12%
Music/Entertainment	\$3.3	6%
Tourism/Hospitality	<u>\$2.8</u>	<u>5%</u>
Total Core Industries	\$20.9	39%
Other	<u>\$33.0</u>	<u>61%</u>
<b>Total GRP:</b>	<b>\$53.9</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 18,500 over the 12 months ending July 2006. The Austin metro will likely add around 25,100 jobs per annum in this expansion cycle.

**Local Economy:** A high quality of living will continue to attract people to central Texas. As population surges and the Tech sector strengthens, Austin's economy will experience steady growth. The music and entertainment industry will continue to thrive.

**Scale of Office Market:** 56 million SF.

**Absorption of Office Space:** 648,000 SF in the 1<sup>st</sup> half of 2006. Likely to absorb 1.9 million SF per annum in this expansion cycle.

**Vacancy Rate:** 13.9% at mid-year 2006. Likely to average 10% to 11% this expansion cycle.

**Space Under Construction:** 617,000 SF at mid-year 2006; 1.1% of standing inventory; 21% pre-leased.

**Rents:** Up 1.5% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 4% to 5% per annum this expansion cycle.

# BOSTON METRO



## Core Industries Boston Metro 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Technology	\$38	12%
Finance/Insurance	\$36	11%
Trade/Distribution	\$22	7%
Biotech/Medical	\$18	6%
Higher Education	\$16	5%
Tourism/Hospitality	<u>\$12</u>	<u>4%</u>
Total Core Industries:	\$142	44%
Other	<u>\$179</u>	<u>56%</u>
<b>Total GRP:</b>	<b>\$321</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 24,600 over the 12 months ending July 2006. The Boston metro will likely add more than 20,800 jobs per annum in this expansion cycle.

**Local Economy:** Consolidation in the Financial Services sector has hurt Boston recently. But as the Financial sector stabilizes and the Tech and Biotech sectors strengthen, Boston may experience significant improvement.

**Scale of Office Market:** 274 million SF.

**Absorption of Office Space:** 1.9 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 2.4 million SF per annum in this expansion cycle. This estimate may be conservative, but reflects concern over sluggish job growth.

**Vacancy Rate:** 11.5% at mid-year 2006. Likely to average 9% to 10% during this expansion cycle.

**Space Under Construction:** 3 million SF at mid-year 2006; 1.0% of standing inventory; 57% pre-leased.

**Rents:** Up 2.5% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 3% to 4% per annum in this expansion cycle.

# CHICAGO METRO



## Core Industries Chicago Metro 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Manufacturing	\$52	13%
Distribution/Trade	\$43	11%
Finance/Insurance	\$39	10%
Transportation	\$14	3.5%
Hospitality/Conventions	\$13	3%
Tech/Telecom	<u>\$10</u>	<u>2.5%</u>
Total Core Industries:	\$171	43%
Other	<u>\$224</u>	<u>57%</u>
<b>Total GRP:</b>	<b>\$395</b>	<b>100%</b>

Source: U.S. Conference of Mayors; Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 52,400 jobs over the 12 months ending July 2006. The Chicago metro will likely add more than 60,700 jobs per annum in this expansion cycle.

**Local Economy:** Steady growth is resuming in Chicago, as the Manufacturing sector stabilizes and Distribution Services ramp up. Increased business spending will also fuel Chicago's economy, particularly as business travel picks up.

**Scale of Office Market:** 332 million SF.

**Absorption of Office Space:** 4.4 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 4.9 million SF per annum in this expansion cycle.

**Vacancy Rate:** 14.4% at mid-year 2006. Likely to average 13% in this expansion cycle.

**Space Under Construction:** 1.8 million SF at mid-year 2006; 0.5% of standing inventory; 58% pre-leased.

**Rents:** Declined 1.9% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 3.5% per annum in this expansion cycle as market gains traction.

## DALLAS/FT. WORTH



### Core Industries Dallas/Fort Worth CMSA 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Manufacturing	\$37	14%
Finance/Ins/Real Estate	\$35	13%
Distribution	\$32	12%
Tech/Telecom	\$19	7%
Transportation	\$11	4%
Hospitality/Conventions	\$7	3%
Energy	<u>\$7</u>	<u>3%</u>
Total Core Industries:	\$148	56%
Other	<u>\$116</u>	<u>44%</u>
<b>Total GRP:</b>	<b>\$264</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 71,800 over the 12 months ending July 2006. Dallas/Ft. Worth will likely add close to 78,600 jobs per annum in this expansion cycle.

**Local Economy:** Dallas/Ft. Worth's economy is strengthening, fueled by Business and Financial Services and the Construction industry. Booming population growth will drive Distribution Services in this expansion, while the rebounding Tech and Telecom industry will help spur D/FW's economy forward.

**Scale of Office Market:** 251 million SF.

**Absorption of Office Space:** 2.5 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 4.8 million SF per annum in this expansion cycle.

**Vacancy Rate:** 17.9% at mid-year 2006. Likely to average 17% in this expansion cycle.

**Space Under Construction:** 5.3 million SF at mid-year 2006; 2.1% of standing inventory; 34% pre-leased.

**Rents:** Increased 0.1% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 4% to 5% per annum in this expansion cycle.

# DENVER/BOULDER METRO



## Core Industries Denver/Boulder Metro 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Tech/Telecom	\$15	12%
Financial Services	\$13	10%
Distribution/Transportation	\$12	9%
Manufacturing	\$11	9%
Tourism/Hospitality	\$ 5	4%
Federal Government	<u>\$ 5</u>	<u>4%</u>
Total Core Industries:	\$61	48%
Other	<u>\$66</u>	<u>52%</u>
<b>Total GRP:</b>	<b>\$127</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 25,300 jobs over the 12 months ending July 2006. The Denver/Boulder metro area will likely add more than 42,000 jobs per annum in this expansion cycle.

**Local Economy:** The Telecom industry has been a major drag on Denver's economy; as it stabilizes and the Tech sector strengthens, Denver's economy is turning around. Increased Distribution Services also are boosting the local economy.

**Scale of Office Market:** 132 million SF.

**Absorption of Office Space:** 1.3 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 3.4 million SF per annum in this expansion cycle.

**Vacancy Rate:** 13.4% at mid-year 2006. Likely to average 12% in this expansion cycle.

**Space Under Construction:** 1.5 million SF at mid-year 2006; 1.1% of standing inventory; 52% pre-leased.

**Rents:** Up 2.3% in the 1<sup>st</sup> half of 2006. Likely to increase 4.0% per annum in this expansion cycle.

# HOUSTON METRO



## Core Industries Houston MSA 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Energy	\$99	48%
Manufacturing	\$27	13%
International Trade	\$19	9%
Medical	\$10	5%
NASA	\$8	4%
Technology	\$6	3%
Total Core Industries:	\$169	82%
Other	\$36	18%
<b>Total GRP:</b>	<b>\$205</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 59,000 over the 12 months ending July 2006. The Houston metro will likely add more than 64,300 jobs per annum in this expansion cycle.

**Local Economy:** Houston's economy is gaining strength, boosted by heavy demand in the Energy sector; Manufacturing and Trade activity are also increasing. In addition, the Medical industry is growing rapidly in Houston.

**Scale of Office Market:** 216 million SF.

**Absorption of Office Space:** 2.5 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 3.0 million SF per annum in this expansion cycle.

**Vacancy Rate:** 13.3% at mid-year 2006. Likely to average 12.7% in this expansion cycle.

**Space Under Construction:** 2.6 million SF at mid-year 2006; 1.2% of standing inventory; 45% pre-leased.

**Rents:** Up 2.2% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 4.5% per annum in this expansion cycle.

# LOS ANGELES COUNTY



## Core Industries Los Angeles Metro 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Int'l Trade/Distribution	\$75	17%
Manufacturing	\$62	14%
Entertainment	\$35	8%
Tourism/Hospitality	\$27	6%
Technology	\$23	5%
Defense/Aerospace	<u>\$18</u>	<u>4%</u>
Total Core Industries	\$240	54%
Other:	<u>\$205</u>	<u>46%</u>
<b>Total GRP:</b>	<b>\$445</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 48,200 over the 12 months ending July 2006. Los Angeles will likely add more than 43,000 jobs per annum in this expansion cycle.

**Local Economy:** Southern California's economy is very strong, as Trade activity continues to boom and the Tech sector strengthens. In addition, Tourism is rebounding and the Defense/Aerospace industry is growing again.

**Scale of Office Market:** 329 million SF.

**Absorption of Office Space:** 2.3 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 2.6 million SF per annum in this expansion cycle.

**Vacancy Rate:** 8.2% at mid-year 2006. Likely to average 10% in this expansion cycle.

**Space Under Construction:** 2.9 million SF at mid-year 2005; 0.9% of standing inventory; 50% pre-leased.

**Rents:** Up 3.4% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 5% to 6% per annum in this expansion cycle.

# NEW YORK METRO



## Core Industries New York Metro 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Finance/Ins/Real Estate	\$132	17%
Tourism/Hospitality	\$77	10%
Media/Advertising	\$54	7%
Trade/Distribution	\$39	5%
International Business	\$39	5%
Technology	<u>\$31</u>	<u>4%</u>
Total Core Industries:	\$372	48%
Other	<u>\$401</u>	<u>52%</u>
<b>Total GRP:</b>	<b>\$773</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 88,300 over the 12 months ending July 2006. The New York metro will likely add approximately 88,200 jobs per annum in this expansion cycle.

**Local Economy:** Steady growth in the Financial arena, along with a rebound in Tourism and the Advertising sector, are propelling New York's economy forward.

**Scale of Office Market:** 981 million SF.

**Absorption of Office Space:** 6.9 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 8.8 million SF per annum in this expansion cycle.

**Vacancy Rate:** 8.9% at mid-year 2006. Likely to average 8% in this expansion cycle.

**Space Under Construction:** 14.1 million SF at mid-year 2006; 1.4% of standing inventory; 65% pre-leased.

**Rents:** Up 3.5% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 7% per annum in this expansion cycle.

# ORANGE COUNTY



## Core Industries Orange County Metro 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Tourism/Hospitality	\$21	12%
Manufacturing	\$21	12%
Technology	\$13	8%
Financial Services	\$13	8%
Total Core Industries	\$68	40%
Other:	\$101	60%
<b>Total GRP:</b>	<b>\$169</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 14,300 over the 12 months ending July 2006. Orange County will likely add close to 44,300 jobs per annum in this expansion cycle.

**Local Economy:** Southern California's economy is very strong, as Trade activity continues to boom and the Tech sector strengthens. In addition, Tourism is rebounding, the Defense/Aerospace industry is growing again, and Financial Services remain a strength in Orange County, although this sector is slowing.

**Scale of Office Market:** 111 million SF.

**Absorption of Office Space:** 1.7 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 2.8 million SF per annum in this expansion cycle.

**Vacancy Rate:** 6.3% at mid-year 2006. Likely to average 8% in this expansion cycle.

**Space Under Construction:** 4.5 million SF at mid-year 2006; 4% of standing inventory; 40.6% pre-leased.

**Rents:** Up 3.0% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 6% to 7% per annum in this expansion cycle.

# PHOENIX METRO



## Core Industries Phoenix Metro 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Tourism/Travel	\$20	15%
Tech/Tech Mftg/Telecom	\$14	10%
Retirement/2 <sup>nd</sup> Home	\$10	7%
Distribution/Trade	\$10	7%
Aerospace/Defense	\$8	6%
Financial/Bus. Services	<u>\$7</u>	<u>5%</u>
Total Core Industries:	\$69	50%
Other	<u>\$68</u>	<u>50%</u>
<b>Total GRP:</b>	<b>\$137</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 90,300 over the 12 months ending July 2006. The Phoenix metro will likely add close to 81,300 jobs per annum in this expansion cycle.

**Local Economy:** Phoenix's economy is strengthening, as population growth continues to surge in the Valley and the Tourism sector rebounds. Renewed strength in the Tech sector is also driving growth. Financial services are playing an important role in Phoenix's rejuvenated economy.

**Scale of Office Market:** 96 million SF.

**Absorption of Office Space:** 2 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 3.6 million SF per annum in this expansion cycle.

**Vacancy Rate:** 11% at mid-year 2006. Likely to average 10% to 11% in this expansion cycle.

**Space Under Construction:** 5.1 million SF at mid-year 2006; 5.3% of standing inventory; 24% pre-leased.

**Rents:** Up 3.6% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 5% per annum in this expansion cycle.

# SAN FRANCISCO BAY AREA



## Core Industries San Francisco Bay Area 2005



<b>Core Industries</b>	<b><u>\$(Bil)</u></b>	<b><u>% GRP</u></b>
High-Tech <sup>1/</sup>	\$63	20%
Trade	\$30	10%
Tourism/Hospitality	\$22	7%
Financial Services	<u>\$15</u>	<u>5%</u>
Total Core Industries	\$130	42%
Other:	<u>\$183</u>	<u>58%</u>
<b>Total GRP:</b>	<b>\$313</b>	<b>100%</b>

<sup>1/</sup> Includes Professional Services and Electronics Manufacturing.

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 41,400 jobs over the 12 months ending July 2006. The San Francisco Bay area will likely add more than 28,400 jobs per annum in this expansion cycle.

**Local Economy:** The Bay Area is experiencing modest growth again. Renewed strength in the Tech sector, Trade activity, and expansion in the Business Services sector are driving the recovery.

**Scale of Office Market:** 303 million SF.

**Absorption of Office Space:** 2.5 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 2.0 million SF per annum in this expansion cycle. This

conservative estimate reflects uncertainty over the tech economy.

**Vacancy Rate:** 10.9% at mid-year 2006. Likely to average 10% to 11% in this expansion cycle.

**Space Under Construction:** 700,000 SF at mid-year 2006; 0.3% of standing inventory; 86% pre-leased.

**Rents:** Down 0.3% in the 1<sup>st</sup> half of 2006. Likely to increase 3% to 5% per annum in this expansion cycle due to limited land for new construction.

## SOUTH FLORIDA



### Core Industries South Florida 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
International Business	\$20	11%
Trade/Distribution	\$21	11%
Tourism/Hospitality	\$15	8%
Manufacturing	\$ 9	5%
Retirement	\$10	5%
Tech/Telecom	<u>\$ 5</u>	<u>3%</u>
Total Core Industries:	\$ 80	43%
Other	<u>\$108</u>	<u>57%</u>
<b>Total GRP:</b>	<b>\$188</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 64,300 over the 12 months ending July 2006. South Florida will likely add more than 95,600 jobs per annum in this expansion cycle.

**Local Economy:** Miami's position as the hub for Latin American businesses in the U.S. is fueling growth, while Trade activity remains strong. In addition, the rebound in Tourism and the constant influx of retirees is boosting growth.

**Scale of Office Market:** 159 million SF.

**Absorption of Office Space:** 1.8 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 6.7 million SF per annum in this expansion cycle.

**Vacancy Rate:** 8.2% at mid-year 2006. Likely to average 8% to 9% in this expansion cycle.

**Space Under Construction:** 6.2 million SF at mid-year 2006; 3.8% of standing inventory; 53% pre-leased.

**Rents:** Up 3% in the 1<sup>st</sup> half of 2006. Likely to increase an average of 6% to 7% per annum in this expansion cycle.

# WASHINGTON METRO



## Core Industries Washington Metro 2005



<u>Core Industries</u>	<u>\$ (Bil)</u>	<u>% GRP</u>
Total Federal Government	\$117	37%
Procurement \$	\$59	19%
Technology	\$51	16%
Building Industry	\$20	6%
International Business	\$17	6%
Hospitality	\$7	2%
Total Core Industries	\$213	67%
Other	<u>\$102</u>	<u>32%</u>
<b>Total GRP:</b>	<b>\$315</b>	<b>100%</b>

Source: U.S. Conference of Mayors, Delta Associates; August 2006.

GRP = Gross Regional Product

**Job Growth:** 73,400 over the 12 months ending July 2006. The Washington metro will likely add more than 58,300 jobs per annum in this expansion cycle.

**Local Economy:** Growth in the Defense, Security, and Intelligence industries is driving the expansion in the Washington area. A rebound in the Tech sector and in Tourism is also helping fuel growth here. However, as in previous cycles, Washington has been ahead of the curve and other markets now are catching up to Washington's performance.

**Scale of Office Market:** 351 million SF.

**Absorption of Office Space:** 1.9 million SF in the 1<sup>st</sup> half of 2006. Likely to absorb 6.7 million SF per annum in this expansion cycle.

**Vacancy Rate:** 8.2% at mid-year 2006. Likely to average 8% to 9% in this expansion cycle.

**Space Under Construction:** 20.2 million SF at mid-year 2005; 5.8% of standing inventory; at 45% pre-leased.

**Rents:** Up 1.3% in the 1<sup>st</sup> half of 2006. Likely to increase 4% to 6% per annum in this expansion cycle. Greater rent growth could have occurred if not for the construction boom.

## **Appendix 3**

### **Metro Area Employment and Office Market Data: 1980 – 2010**



**EMPLOYMENT AND OFFICE MARKET DATA**

**ATLANTA METRO**  
**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	29,200	3.0%	3,600,000	3.9%	12.2%
1981	27,200	2.7%	2,814,000	6.7%	8.1%
1982	12,700	1.2%	2,454,000	15.4%	5.0%
1983	51,300	4.9%	5,605,000	14.3%	3.7%
1984	97,500	8.9%	6,910,000	14.4%	3.5%
1985	68,700	5.8%	8,629,000	19.2%	1.0%
1986	61,600	4.9%	6,445,000	19.6%	2.8%
1987	52,900	4.0%	10,987,000	20.1%	4.6%
1988	88,200	6.4%	8,653,000	18.0%	1.2%
1989	31,500	2.2%	7,394,000	18.2%	1.3%
1990	32,400	2.2%	4,952,000	18.0%	-1.6%
1991	(21,000)	-1.3%	5,690,000	17.7%	-4.0%
1992	31,400	2.0%	4,698,000	17.3%	-2.2%
1993	83,200	5.1%	5,896,000	13.6%	2.1%
1994	92,600	5.4%	5,275,000	10.6%	2.2%
1995	85,300	4.8%	4,498,000	8.1%	3.4%
1996	92,500	4.9%	3,170,000	7.5%	5.0%
1997	66,700	3.4%	7,565,000	7.2%	3.5%
1998	91,400	4.5%	6,533,000	8.8%	3.6%
1999	100,200	4.7%	12,202,000	7.9%	5.7%
2000	61,200	2.7%	10,157,000	7.4%	7.5%
2001	11,700	0.5%	(7,139,000)	14.5%	-5.0%
2002	(42,700)	-1.9%	(3,269,000)	16.7%	-5.6%
2003	(21,800)	-1.0%	1,658,000	17.0%	-2.0%
2004	31,600	1.4%	3,424,000	15.4%	-0.5%
2005	69,100	3.0%	5,000,000	14.1%	1.0%
Avg. Annual 1983-1989	64,529	5.3%	7,803,286	17.7%	2.6%
Avg. Annual 1993-2000	84,138	4.5%	6,912,000	8.9%	4.1%
Projected Avg. Annual 2004-2010	59,400	2.5%	4,870,800	11.0%	4.0%

SF of net absorption per new job 1983-1989: 121

SF of net absorption per new job 1993-2000: 82

SF of net absorption per new job 2004-2010: 82

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**

**AUSTIN METRO**

**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	13,200	5.7%	240,000	4.5%	8.0%
1981	15,600	6.4%	1,483,000	8.5%	5.5%
1982	10,800	4.2%	1,019,000	9.0%	4.5%
1983	21,100	7.8%	2,016,000	9.6%	4.1%
1984	37,100	12.7%	3,565,000	10.1%	3.0%
1985	29,100	8.9%	4,679,000	16.5%	0.6%
1986	2,600	0.7%	819,000	28.3%	-7.0%
1987	(7,100)	-2.0%	572,000	33.8%	-15.5%
1988	13,700	3.9%	1,498,000	29.6%	-5.6%
1989	7,800	2.1%	1,969,000	24.4%	-3.5%
1990	16,100	4.3%	1,871,000	18.9%	0.4%
1991	12,200	3.1%	1,190,000	15.4%	3.6%
1992	21,400	5.3%	1,173,000	11.9%	5.6%
1993	29,400	6.9%	975,000	9.3%	5.7%
1994	30,800	6.8%	924,000	8.2%	5.0%
1995	32,100	6.6%	717,000	6.9%	5.3%
1996	24,400	4.7%	1,438,000	5.2%	8.3%
1997	25,400	4.7%	1,375,000	3.6%	7.7%
1998	34,400	6.1%	3,238,000	3.0%	9.2%
1999	34,700	5.8%	6,150,000	1.5%	10.7%
2000	37,300	5.9%	3,517,000	0.8%	16.6%
2001	1,400	0.2%	(2,223,000)	12.7%	-5.0%
2002	(15,700)	-2.3%	(1,449,000)	20.1%	-12.0%
2003	(5,400)	-0.8%	250,000	18.2%	-4.0%
2004	14,400	2.2%	1,491,000	15.2%	2.0%
2005	25,900	3.9%	1,916,600	14.7%	1.5%
Avg. Annual 1983-1989	14,900	4.9%	2,159,714	21.8%	-3.4%
Avg. Annual 1993-2000	31,063	5.9%	2,291,750	4.8%	8.6%
Projected Avg. Annual 2004-2010	25,100	3.5%	1,857,400	11.0%	5.0%

SF of net absorption per new job 1983-1989: 145  
 SF of net absorption per new job 1993-2000: 74  
 SF of net absorption per new job 2004-2010: 74

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**

**BOSTON METRO**

**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	30,600	2.1%	5,071,000	2.7%	15.0%
1981	7,000	0.5%	4,167,000	5.9%	9.2%
1982	(4,000)	-0.3%	(343,000)	10.0%	1.6%
1983	48,200	3.3%	6,854,000	7.4%	4.0%
1984	82,700	5.4%	11,158,000	9.0%	7.0%
1985	34,400	2.1%	8,108,000	10.6%	0.3%
1986	32,700	2.0%	10,680,000	7.4%	2.2%
1987	42,000	2.5%	10,446,000	7.8%	3.2%
1988	34,000	2.0%	7,048,000	10.4%	3.1%
1989	141,100	8.1%	3,268,000	12.1%	1.5%
1990	(67,600)	-3.6%	2,283,000	15.6%	-5.2%
1991	(102,800)	-4.6%	1,601,000	15.8%	-6.9%
1992	(15,600)	-0.7%	3,216,000	14.2%	-4.4%
1993	32,100	1.5%	6,498,000	12.0%	1.6%
1994	48,600	2.3%	7,368,000	8.3%	3.3%
1995	58,500	2.7%	4,394,000	6.0%	5.3%
1996	52,700	2.3%	4,664,000	3.3%	6.4%
1997	65,200	2.8%	5,384,000	1.7%	7.0%
1998	61,400	2.6%	6,400,000	1.9%	8.5%
1999	46,600	1.9%	12,678,000	1.3%	15.0%
2000	65,000	2.6%	9,464,000	1.4%	20.0%
2001	(4,300)	-0.2%	(6,715,000)	10.6%	-6.1%
2002	(69,500)	-2.7%	(6,058,000)	14.0%	-15.8%
2003	(55,800)	-2.3%	1,021,000	14.5%	-5.0%
2004	(5,900)	-0.2%	2,922,000	13.4%	2.0%
2005	18,200	0.8%	4,200,000	12.4%	2.5%
Avg. Annual 1983-1989	59,300	3.6%	8,223,143	9.2%	3.0%
Avg. Annual 1993-2000	53,763	2.4%	7,106,250	4.5%	8.4%
Projected Avg. Annual 2004-2010	20,800	0.8%	2,392,000	10.0%	4.0%

SF of net absorption per new job 1983-1989: 139

SF of net absorption per new job 1993-2000: 132

SF of net absorption per new job 2004-2010: 115

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**  
**CHICAGO METRO**  
**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	6,500	0.2%	6,483,000	8.8%	5.9%
1981	(41,900)	-1.3%	4,309,000	10.6%	3.5%
1982	(98,100)	-3.1%	3,617,000	11.4%	2.0%
1983	(11,600)	-0.4%	5,550,000	13.0%	3.0%
1984	165,800	5.4%	5,180,000	14.0%	1.6%
1985	135,000	4.2%	5,478,000	16.2%	3.5%
1986	26,800	0.8%	6,186,000	18.7%	1.9%
1987	85,900	2.5%	12,792,000	16.1%	4.0%
1988	94,600	2.7%	8,120,000	13.9%	3.0%
1989	94,100	2.6%	6,907,000	14.7%	2.4%
1990	38,000	1.0%	3,353,000	16.9%	1.7%
1991	(58,000)	-1.4%	1,125,000	18.5%	-2.9%
1992	(1,100)	0.0%	(24,000)	19.8%	-2.3%
1993	79,800	2.0%	2,502,000	19.2%	-0.5%
1994	88,700	2.2%	7,189,000	16.8%	2.0%
1995	103,100	2.5%	6,265,000	15.0%	5.0%
1996	66,300	1.6%	5,133,000	13.4%	6.0%
1997	76,200	1.8%	5,642,000	11.7%	6.0%
1998	94,900	2.2%	3,473,000	10.7%	6.0%
1999	51,100	1.1%	4,277,000	11.0%	3.5%
2000	57,500	1.3%	10,283,000	9.5%	3.1%
2001	(23,900)	-0.5%	(3,988,000)	15.3%	-3.0%
2002	(93,700)	-2.1%	715,000	16.1%	-4.8%
2003	(41,000)	-0.9%	(1,470,000)	16.6%	-3.0%
2004	2,600	0.1%	2,845,000	16.0%	-1.0%
2005	46,700	1.0%	3,475,000	15.5%	-2.0%
Avg. Annual 1984-1990	91,457	2.8%	6,859,429	15.8%	2.6%
Avg. Annual 1993-2000	77,200	1.8%	5,595,500	13.4%	3.9%
Projected Avg. Annual 2004-2010	60,700	1.3%	4,370,400	13.0%	3.5%

SF of net absorption per new job 1983-1989: 75  
SF of net absorption per new job 1993-2000: 72  
SF of net absorption per new job 2004-2010: 72

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**  
**DALLAS/FT. WORTH METRO**  
**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	76,400	5.6%	4,960,000	11.4%	11.1%
1981	70,200	4.9%	6,832,000	10.7%	11.4%
1982	27,200	1.8%	4,307,000	21.2%	5.9%
1983	57,600	3.8%	5,396,000	28.6%	3.1%
1984	148,800	9.4%	9,519,000	24.7%	4.3%
1985	102,500	6.0%	6,118,000	29.5%	2.5%
1986	29,400	1.6%	4,673,000	33.0%	-3.2%
1987	100	0.0%	3,573,000	32.1%	-6.0%
1988	30,500	1.7%	2,007,000	31.2%	-10.2%
1989	39,500	2.1%	4,323,000	27.8%	-3.2%
1990	58,800	3.0%	1,299,000	27.1%	1.1%
1991	100	0.0%	1,097,000	27.7%	-2.6%
1992	9,000	0.4%	(1,085,000)	28.0%	-4.3%
1993	61,300	3.0%	813,000	26.6%	-1.5%
1994	81,600	3.9%	4,047,000	22.9%	2.1%
1995	87,500	4.1%	3,985,000	19.5%	5.9%
1996	90,800	4.1%	2,822,000	19.5%	5.8%
1997	121,300	5.2%	6,998,000	17.0%	5.7%
1998	116,100	4.7%	9,980,000	14.9%	7.0%
1999	94,600	3.7%	10,094,000	15.5%	9.0%
2000	99,600	3.7%	6,953,000	14.4%	5.5%
2001	11,800	0.4%	144,000	18.4%	-0.5%
2002	(69,900)	-2.5%	(2,202,000)	21.2%	-3.0%
2003	(39,600)	-1.5%	(2,363,000)	21.7%	-3.0%
2004	32,700	1.3%	3,818,000	20.4%	-1.5%
2005	66,400	2.5%	2,574,000	18.5%	1.2%
Avg. Annual 1983-1989	58,343	3.5%	5,087,000	29.6%	-1.8%
Avg. Annual 1993-2000	94,100	4.1%	5,711,500	18.8%	4.9%
Projected Avg. Annual 2004-2010	78,600	2.7%	4,794,600	17.0%	4.5%

SF of net absorption per new job 1983-1989: 87  
SF of net absorption per new job 1993-2000: 61  
SF of net absorption per new job 2004-2010: 61

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**  
**DENVER/BOULDER METRO**  
**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	25,900	3.4%	4,650,000	8.1%	15.4%
1981	35,800	4.5%	5,752,000	8.1%	14.3%
1982	21,800	2.6%	5,282,000	8.5%	8.0%
1983	14,000	1.6%	5,094,000	9.5%	7.4%
1984	50,900	5.9%	6,746,000	12.6%	5.6%
1985	10,200	1.1%	3,832,000	14.1%	4.1%
1986	(13,400)	-1.4%	1,123,000	15.7%	-7.0%
1987	(3,200)	-0.3%	(431,000)	18.4%	-7.0%
1988	9,500	1.0%	(186,000)	18.5%	-10.0%
1989	22,300	2.4%	1,324,000	17.3%	-3.0%
1990	11,200	1.2%	3,654,000	15.0%	2.0%
1991	13,400	1.4%	1,019,000	15.5%	1.0%
1992	27,800	2.9%	1,344,000	14.6%	2.0%
1993	40,600	4.1%	3,255,000	10.8%	6.0%
1994	43,800	4.2%	3,750,000	7.8%	7.0%
1995	44,000	4.1%	2,398,000	7.6%	9.0%
1996	35,300	3.1%	3,134,000	6.6%	12.0%
1997	51,700	4.4%	2,385,000	7.6%	10.0%
1998	48,400	4.0%	3,219,000	9.3%	5.0%
1999	50,100	4.0%	4,958,000	9.6%	7.0%
2000	56,100	4.3%	6,444,000	9.2%	7.0%
2001	200	0.0%	3,508,000	13.9%	-6.0%
2002	(42,500)	-3.1%	(2,196,000)	17.4%	-10.0%
2003	(19,100)	-1.4%	327,000	16.7%	-4.0%
2004	10,800	1.1%	991,000	16.6%	-1.5%
2005	26,200	2.0%	1,874,000	14.9%	3.0%
Avg. Annual 1980-1985	26,433	3.2%	5,226,000	10.2%	9.1%
Avg. Annual 1993-2000	46,250	4.0%	3,692,875	8.6%	7.9%
Projected Avg. Annual 2004-2010	42,000	3.0%	3,360,000	12.0%	4.0%

SF of net absorption per new job 1983-1989: 198  
SF of net absorption per new job 1993-2000: 80  
SF of net absorption per new job 2004-2010: 80

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**

**HOUSTON METRO**  
**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	80,600	6.1%	9,283,000	8.1%	19.6%
1981	117,500	8.4%	12,819,000	11.5%	15.1%
1982	24,500	1.6%	10,260,000	21.9%	3.1%
1983	(96,200)	-6.2%	7,835,000	30.7%	-1.3%
1984	31,200	2.2%	11,289,000	27.2%	-4.8%
1985	2,800	0.2%	1,251,000	28.2%	-10.8%
1986	(68,200)	-4.6%	(1,206,000)	30.1%	-10.5%
1987	(22,600)	-1.6%	286,000	30.0%	-15.1%
1988	66,000	4.8%	3,999,000	27.2%	1.1%
1989	67,000	4.6%	1,077,000	26.2%	0.8%
1990	89,700	5.9%	4,484,000	23.6%	3.3%
1991	29,100	1.6%	1,803,000	23.7%	0.2%
1992	1,200	0.1%	902,000	23.6%	-2.3%
1993	32,500	1.8%	578,000	22.9%	-0.6%
1994	47,400	2.6%	2,192,000	21.2%	0.6%
1995	59,000	3.1%	1,408,000	20.0%	0.4%
1996	47,700	2.5%	2,654,000	18.3%	2.8%
1997	82,700	4.2%	6,113,000	14.5%	9.5%
1998	103,000	5.0%	3,356,000	13.2%	8.6%
1999	34,600	1.6%	2,243,000	12.8%	4.3%
2000	52,600	2.4%	2,847,000	12.0%	5.9%
2001	39,000	1.7%	1,586,000	13.1%	0.3%
2002	(5,100)	-0.2%	(454,000)	15.1%	-2.9%
2003	(14,600)	-0.6%	(2,111,000)	16.9%	-4.0%
2004	15,600	0.7%	3,122,000	15.5%	-0.5%
2005	60,400	2.6%	2,775,000	14.5%	1.3%
Avg. Annual 1980-1990	26,573	1.9%	5,579,727	24.1%	0.0%
Avg. Annual 1993-2000	57,438	2.9%	2,673,875	16.9%	3.9%
Projected Avg. Annual 2004-2010	64,300	2.6%	3,022,100	12.7%	4.5%

SF of net absorption per new job 1983-1989: 210

SF of net absorption per new job 1993-2000: 47

SF of net absorption per new job 2004-2010: 47

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**  
**LOS ANGELES COUNTY**  
**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	25,800	0.7%	5,400,000	5.4%	8.0%
1981	30,700	0.9%	3,000,000	7.7%	5.3%
1982	(108,300)	-3.0%	4,800,000	12.7%	-1.7%
1983	5,000	0.1%	8,500,000	13.3%	-0.6%
1984	120,200	3.4%	5,900,000	13.4%	2.6%
1985	96,600	2.6%	6,300,000	14.6%	3.0%
1986	99,700	2.7%	7,400,000	15.2%	4.2%
1987	99,200	2.6%	8,100,000	14.5%	2.4%
1988	80,600	2.0%	7,100,000	13.4%	2.7%
1989	77,500	1.9%	6,500,000	14.1%	1.8%
1990	24,200	0.6%	3,200,000	15.8%	1.9%
1991	(153,000)	-3.7%	1,100,000	19.1%	-0.4%
1992	(178,200)	-4.5%	1,000,000	19.1%	-4.3%
1993	(96,900)	-2.5%	1,000,000	18.2%	-5.5%
1994	(5,700)	-0.2%	(1,500,000)	17.4%	-4.4%
1995	44,700	1.2%	100,000	16.9%	-1.0%
1996	41,900	1.1%	2,620,000	16.0%	-0.8%
1997	76,500	2.0%	2,939,000	14.9%	1.1%
1998	78,500	2.0%	1,194,000	14.7%	3.5%
1999	59,400	1.5%	6,314,000	13.0%	4.2%
2000	69,200	1.7%	9,456,000	11.5%	7.5%
2001	1,500	0.0%	1,155,000	12.8%	1.0%
2002	(46,800)	-1.1%	1,216,000	12.8%	-2.0%
2003	(43,900)	-1.1%	1,554,000	12.4%	0.0%
2004	13,600	0.3%	5,077,000	10.8%	1.5%
2005	20,100	0.5%	6,084,000	8.9%	4.5%
Avg. Annual 1983-1989	82,686	2.2%	7,114,286	14.1%	2.3%
Avg. Annual 1995-2000	61,700	1.6%	3,770,500	14.5%	2.4%
Projected Avg. Annual 2004-2010	43,000	1.0%	2,623,000	10.0%	5.5%

SF of net absorption per new job 1983-1989: 86  
SF of net absorption per new job 1995-2000: 61  
SF of net absorption per new job 2004-2010: 61

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**

**NEW YORK METRO**

**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	31,200	0.8%	6,744,000	6.3%	5.0%
1981	61,600	1.6%	2,306,000	6.9%	5.6%
1982	(9,700)	-0.3%	(2,332,000)	9.3%	-0.6%
1983	19,900	0.5%	3,282,000	9.8%	1.1%
1984	98,500	2.6%	5,088,000	10.3%	1.9%
1985	72,900	1.9%	4,704,000	11.0%	3.3%
1986	64,300	1.6%	9,800,000	12.1%	0.8%
1987	58,400	1.4%	5,874,000	13.5%	-2.3%
1988	21,200	0.5%	3,444,000	14.4%	-1.9%
1989	3,200	0.1%	3,274,000	15.2%	-2.1%
1990	(44,200)	-1.1%	(1,872,000)	16.3%	-1.0%
1991	(258,000)	-5.2%	(5,652,000)	17.3%	-8.1%
1992	(124,600)	-2.6%	(3,080,000)	17.2%	-4.6%
1993	7,700	0.2%	2,947,000	16.4%	-2.6%
1994	43,500	0.9%	4,501,000	15.5%	0.5%
1995	23,900	0.5%	7,959,000	13.9%	2.1%
1996	45,300	1.0%	10,893,000	11.8%	3.3%
1997	96,900	2.0%	13,603,000	9.1%	6.4%
1998	120,000	2.5%	11,738,000	7.5%	8.4%
1999	117,100	2.4%	12,810,000	6.0%	9.2%
2000	129,700	2.6%	13,642,000	3.8%	23.3%
2001	(25,400)	-0.5%	(29,000,000)	8.2%	-3.6%
2002	(130,500)	-2.5%	(7,795,000)	10.7%	-8.0%
2003	(24,400)	-0.3%	2,057,000	11.2%	-3.0%
2004	39,400	0.5%	10,962,000	10.6%	3.0%
2005	64,600	0.8%	10,500,000	8.9%	3.5%
Avg. Annual 1983-1989	48,343	1.2%	5,066,571	12.3%	0.1%
Avg. Annual 1993-2000	73,013	1.5%	9,761,625	10.5%	6.3%
Projected Avg. Annual 2004-2010	88,200	1.0%	8,820,000	8.0%	7.0%

SF of net absorption per new job 1983-1989: 105  
 SF of net absorption per new job 1993-2000: 134  
 SF of net absorption per new job 2004-2010: 100

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**  
**ORANGE COUNTY**  
**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	32,100	4.0%	3,468,000	15.1%	3.5%
1981	27,800	3.3%	3,618,000	17.6%	3.3%
1982	(15,700)	-1.8%	3,359,000	22.3%	3.2%
1983	20,700	2.4%	3,427,000	20.3%	3.1%
1984	63,400	7.3%	4,442,000	17.1%	4.5%
1985	45,400	4.9%	5,651,000	19.2%	3.8%
1986	44,000	4.5%	5,089,000	21.3%	-2.7%
1987	47,100	4.6%	4,599,000	20.9%	-1.9%
1988	60,800	5.7%	4,766,000	20.2%	-1.9%
1989	26,800	2.4%	4,086,000	18.8%	1.5%
1990	15,700	1.4%	3,014,000	19.5%	-1.0%
1991	(28,700)	-2.4%	1,970,000	21.6%	-3.9%
1992	(17,700)	-1.5%	1,547,000	20.0%	-5.6%
1993	(10,600)	-0.9%	1,807,000	17.6%	-2.1%
1994	11,400	1.0%	399,000	17.2%	-2.2%
1995	24,900	2.2%	1,352,000	16.0%	1.1%
1996	32,600	2.8%	2,193,000	13.6%	3.3%
1997	49,500	4.2%	3,262,000	10.9%	6.4%
1998	65,300	5.3%	3,378,000	9.0%	6.5%
1999	46,100	3.5%	1,263,000	11.0%	3.8%
2000	43,700	3.2%	5,263,000	10.0%	6.0%
2001	24,800	1.8%	58,000	14.4%	-2.2%
2002	(10,000)	-0.7%	1,707,000	13.7%	-5.4%
2003	25,300	1.8%	2,270,000	12.0%	0.0%
2004	27,700	1.9%	2,927,000	9.6%	4.0%
2005	34,200	2.3%	3,355,000	6.4%	7.0%
Avg. Annual 1983-1989	44,029	4.5%	4,580,000	19.7%	0.9%
Avg. Annual 1994-2000	39,071	3.2%	2,444,286	12.5%	3.6%
Projected Avg. Annual 2004-2010	44,300	2.8%	2,790,900	8.0%	6.5%

SF of net absorption per new job 1983-1989: 104  
 SF of net absorption per new job 1994-2000: 63  
 SF of net absorption per new job 2004-2010: 63

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**

**PHOENIX METRO**

**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	22,800	3.7%	1,662,000	13.5%	8.9%
1981	19,200	3.0%	1,449,000	16.0%	6.5%
1982	(400)	-0.1%	2,636,000	19.3%	5.5%
1983	37,900	5.8%	1,319,000	22.0%	3.0%
1984	77,900	11.2%	2,113,000	22.5%	6.0%
1985	71,600	9.3%	5,094,000	24.4%	5.0%
1986	40,200	4.8%	4,416,000	25.7%	4.0%
1987	31,200	3.5%	3,025,000	24.1%	2.6%
1988	53,900	5.9%	1,294,000	25.6%	0.2%
1989	23,800	2.5%	2,325,000	26.9%	0.3%
1990	21,600	2.2%	1,468,000	27.3%	-2.5%
1991	(4,000)	-0.4%	1,788,000	26.5%	-3.0%
1992	11,900	1.2%	2,005,000	22.8%	-4.0%
1993	49,800	4.9%	2,031,000	19.9%	-0.5%
1994	71,200	6.6%	2,809,000	16.1%	5.0%
1995	82,800	7.3%	1,860,000	13.4%	8.0%
1996	87,700	7.2%	1,659,000	11.3%	10.0%
1997	70,500	5.4%	3,474,000	10.9%	10.0%
1998	75,100	5.4%	4,547,000	10.3%	8.0%
1999	66,900	4.6%	4,541,000	11.4%	6.0%
2000	53,400	3.5%	3,669,000	11.9%	5.1%
2001	19,300	1.2%	2,290,000	16.0%	-1.0%
2002	(1,600)	-0.1%	59,000	17.5%	-4.3%
2003	23,700	1.5%	1,679,000	16.0%	-2.0%
2004	63,900	3.9%	3,041,000	15.1%	0.0%
2005	103,700	6.2%	4,200,000	11.8%	6.0%
Avg. Annual 1983-1989	48,071	6.1%	2,798,000	24.5%	3.0%
Avg. Annual 1993-2000	69,675	5.6%	3,073,750	13.2%	6.4%
Projected Avg. Annual 2004-2010	81,300	4.4%	3,577,200	10.5%	5.0%

SF of net absorption per new job 1983-1989: 58  
 SF of net absorption per new job 1993-2000: 44  
 SF of net absorption per new job 2004-2010: 44

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**  
**SAN FRANCISCO BAY AREA**  
**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	76,300	3.5%	6,716,000	8.6%	9.8%
1981	29,000	1.3%	5,024,000	8.8%	5.1%
1982	(17,200)	-0.8%	6,103,000	11.2%	2.8%
1983	26,600	1.2%	7,355,000	12.7%	3.6%
1984	97,600	4.3%	7,726,000	14.7%	2.8%
1985	48,700	2.1%	10,137,000	18.6%	0.8%
1986	18,000	0.7%	8,738,000	20.5%	-1.1%
1987	50,600	2.1%	9,510,000	19.1%	-2.2%
1988	74,500	3.0%	12,179,000	15.3%	-0.2%
1989	37,600	1.5%	6,722,000	14.5%	1.0%
1990	41,200	1.6%	4,799,000	14.3%	1.3%
1991	(16,200)	-0.6%	1,869,000	15.7%	0.0%
1992	(48,300)	-1.8%	2,647,000	14.7%	-2.0%
1993	2,200	0.1%	1,634,000	13.9%	-2.2%
1994	2,900	0.1%	3,915,000	12.6%	2.2%
1995	65,500	2.5%	5,031,000	10.2%	3.7%
1996	99,600	3.8%	6,591,000	7.8%	7.4%
1997	114,500	4.2%	5,189,000	6.7%	8.3%
1998	87,100	3.0%	5,617,000	6.9%	9.9%
1999	75,100	2.5%	5,097,000	6.1%	16.4%
2000	137,900	4.5%	9,164,000	3.8%	47.0%
2001	(44,600)	-1.4%	(172,000)	10.7%	-23.2%
2002	(182,400)	-5.8%	(4,144,000)	16.0%	-18.7%
2003	(98,300)	-3.3%	(1,043,000)	17.2%	-5.0%
2004	(23,100)	-0.9%	5,045,000	15.2%	-4.0%
2005	23,000	0.8%	4,800,000	12.1%	-1.5%
Avg. Annual 1983-1989	50,514	2.1%	8,909,571	16.5%	0.7%
Avg. Annual 1993-2000	73,100	2.6%	5,279,750	8.5%	11.6%
Projected Avg. Annual 2004-2010	28,400	1.0%	2,044,800	10.8%	4.5%

SF of net absorption per new job 1983-1989: 176  
SF of net absorption per new job 1993-2000: 72  
SF of net absorption per new job 2004-2010: 72

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**  
**SOUTH FLORIDA**  
**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	76,300	6.3%	2,069,000	4.5%	5.0%
1981	49,300	3.8%	3,493,000	4.6%	7.0%
1982	(14,000)	-1.0%	1,128,000	10.7%	10.0%
1983	33,200	2.5%	3,508,000	16.0%	8.2%
1984	87,500	6.4%	4,168,000	19.3%	3.2%
1985	49,600	3.4%	5,170,000	25.1%	-3.8%
1986	50,200	3.4%	7,786,000	26.0%	-0.3%
1987	74,500	4.8%	7,242,000	24.9%	0.0%
1988	64,900	4.0%	7,068,000	23.0%	2.3%
1989	48,400	2.9%	4,035,000	22.7%	1.4%
1990	23,800	1.4%	3,852,000	22.3%	-2.6%
1991	(41,600)	-2.4%	725,000	22.8%	-2.8%
1992	11,700	0.7%	6,460,000	18.7%	-4.5%
1993	74,600	4.3%	4,905,000	15.6%	0.2%
1994	60,200	3.3%	3,472,000	13.5%	3.5%
1995	49,200	2.6%	1,093,000	12.5%	2.6%
1996	47,500	2.5%	2,512,000	11.4%	3.1%
1997	62,800	3.2%	4,048,000	9.5%	5.3%
1998	44,300	2.2%	3,130,000	9.0%	4.5%
1999	36,700	1.8%	5,267,000	10.3%	4.9%
2000	76,800	3.7%	7,370,000	8.2%	6.0%
2001	46,100	2.1%	(2,228,000)	13.2%	1.9%
2002	(2,800)	-0.1%	357,000	12.9%	-2.0%
2003	7,600	0.3%	2,663,000	12.3%	0.0%
2004	67,100	3.1%	3,838,000	11.1%	2.0%
2005	90,200	4.2%	4,800,000	8.9%	2.5%
Avg. Annual 1983-1989	58,329	3.9%	5,568,143	22.4%	1.6%
Avg. Annual 1993-2000	56,513	3.0%	3,974,625	11.3%	3.8%
Projected Avg. Annual 2004-2010	95,600	3.8%	6,692,000	8.5%	6.5%

SF of net absorption per new job 1983-1989: 95  
SF of net absorption per new job 1993-2000: 70  
SF of net absorption per new job 2004-2010: 70

Source: BLS, REIS, Delta Associates; August 2006.

**EMPLOYMENT AND OFFICE MARKET DATA**  
**WASHINGTON METRO**  
**1980 THROUGH 2010**

<b>Year</b>	<b>Avg. Annual Job Growth</b>	<b>% Change</b>	<b>Office Space Net Absorption</b>	<b>Overall Vacancy Rate</b>	<b>Change in Rent</b>
1980	35,900	2.2%	8,662,000	8.9%	5.7%
1981	19,900	1.2%	7,673,000	9.6%	5.1%
1982	(12,000)	-0.7%	8,886,000	10.2%	5.5%
1983	52,800	3.2%	6,947,000	10.6%	4.0%
1984	106,800	6.3%	10,041,000	11.4%	3.6%
1985	100,900	5.6%	11,197,000	11.8%	1.2%
1986	81,600	4.3%	11,544,000	12.9%	1.5%
1987	92,200	4.6%	13,204,000	14.9%	1.3%
1988	185,000	8.9%	12,708,000	14.7%	1.2%
1989	62,500	2.8%	11,346,000	15.1%	0.2%
1990	16,900	0.7%	9,845,000	16.5%	-2.9%
1991	(52,600)	-2.3%	9,770,000	16.7%	-0.4%
1992	(8,400)	-0.4%	5,650,000	15.6%	-0.6%
1993	36,100	1.6%	7,137,000	13.2%	-1.5%
1994	38,200	1.7%	1,887,000	12.4%	2.3%
1995	24,400	1.1%	4,382,000	10.9%	2.7%
1996	44,300	1.9%	4,500,000	9.4%	1.4%
1997	61,400	2.6%	3,842,000	8.6%	5.8%
1998	74,800	3.1%	7,488,000	6.8%	8.0%
1999	91,600	3.7%	11,030,000	6.1%	9.9%
2000	116,600	4.6%	15,595,000	4.5%	9.7%
2001	40,800	1.5%	5,806,000	9.6%	-5.1%
2002	9,700	0.4%	2,411,000	11.6%	-7.0%
2003	56,300	2.1%	3,393,000	11.2%	0.0%
2004	71,200	2.6%	11,592,000	9.2%	1.5%
2005	64,700	2.3%	7,550,000	7.9%	2.5%
Avg. Annual 1983-1989	97,400	5.1%	10,998,143	13.1%	1.9%
Avg. Annual 1993-2000	60,925	2.6%	6,982,625	9.0%	4.8%
Projected Avg. Annual 2004-2010	58,300	2.0%	6,704,500	8.5%	5.5%

SF of net absorption per new job 1983-1989: 113  
SF of net absorption per new job 1993-2000: 115  
SF of net absorption per new job 2004-2010: 115

Source: BLS, REIS, Delta Associates; August 2006.