

# IRR-VIEWPOINT 2010



**I**NTEGRA Realty Resources  
*Local Expertise...Nationally*

**REAL ESTATE  
VALUE TRENDS**



*IRR-Viewpoint 2010* is dedicated in memory of our departed  
Chairman, mentor and friend.

**Kevin K. Nunnink, MAI, FRICS**  
March 15, 1952 – August 25, 2009

# CHAIRMAN'S LETTER

Dear Colleagues and Friends,

On the 10th Anniversary of Integra Realty Resources, America's largest commercial real estate valuation and counseling firm, we are pleased to present the 20th edition of *IRR-Viewpoint 2010*. This publication presents a compilation of the commercial real estate market experience of the 59 Integra offices across the United States.

In addition to the difficulties of the commercial real estate markets, IRR suffered a tremendous loss in 2009. On August 25th, we endured the passing of our cherished Chairman of the Board and *IRR-Viewpoint* Editor-in-Chief, Kevin K. Nunnink, MAI, FRICS. This edition of *IRR-Viewpoint* is dedicated to Kevin's memory and his commitment to providing the real estate and finance industry the highest quality valuation and counseling services.

The financial market meltdown, which began in 2007, was a game changer to almost every real estate market in the United States. Many of our institutional clients have downsized and in some cases, like old soldiers, just faded away. This year's edition will present our perspective of how real estate markets have changed in these turbulent times as our Federal government struggles to stabilize capital markets. We present these perspectives with caution. Capital markets, the life blood of real estate, remain stressed. Deal flow has dwindled to a crawl due to limitations on new financing and requirements for larger equity positions. Refinancing has become difficult as credit markets continue to tighten with strict lending standards and real estate lending competes with the government's liquidation of local and regional banks.

Recessionary forces are beginning to ease, but the fundamental vehicle, real estate capital, has yet to reestablish a process and capacity to even fund outstanding rollover debt.

It is in times like these that the broad coverage of Integra's 59 offices can provide the most current, market activity for your specific market.

The information in *IRR-Viewpoint 2010* presents data and perspectives from Integra's professionals that provide the highest quality real estate valuation and counseling services to investors, lenders, developers, governments, and property users across the country.

At the request of many readers, this year Integra proposes to roll out quarterly updates of *IRR-Viewpoint*. These updates will provide contemporary market information to assist our readers on a timelier basis.

Our local offices and corporate staff are continually monitoring market activity and stand ready to assist with additional information readers may request. You are encouraged to call your local IRR office to discuss a particular need or to schedule a public presentation of *IRR-Viewpoint 2010*.

During times like these, our tag line, "Local Expertise...Nationally," is even more relevant.

Sincerely,



Anthony S. Graziano, MAI, CRE, FRICS  
Chairman of the Board  
Integra Realty Resources, Inc.

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The front cover photo is The Encore on 7th, at 100 7th Street in Pittsburgh, Pennsylvania.

The luxury apartment building, which opened in 2006, was developed by Lincoln Property Company. The photo was taken by Pittsburgh architectural photographer, Ed Massery ([www.edmassery.com](http://www.edmassery.com)). Integra Realty Resources Pittsburgh most recently appraised the building in 2008.

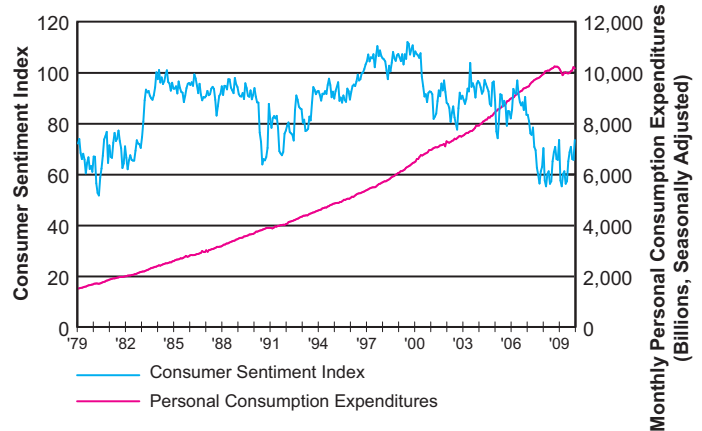
# NATIONAL REAL ESTATE MARKET

2009 will likely be remembered and studied for some time to come as one of the most challenging economic periods in modern history. IRR will recount some of the extraordinary events that have transpired over the course of 2009. We will also highlight a few key factors that are driving current economic conditions, and look for signs of where the economy and more specifically real estate markets may be headed, and just as importantly, timing.

National real estate markets have been heavily impacted by the downturn in the U.S. economy, and there are mixed signals as to whether the economy has begun to turn a corner and return to a growth cycle. Third Quarter GDP grew by 2.8%, ending four consecutive quarters of negative GDP growth. While this appears to be a positive sign, it should be noted that this growth is likely overstated for at least two reasons. First, the investment component of GDP currently does not track intangible investments into such things as research and development, and tangential evidence indicates that such intangible investments, which are critical to employment and future growth in our ever-increasingly service-based economy, have fallen precipitously. Second, the U.S. trade gap has narrowed as American consumers cut back spending, including imports, while a falling dollar has helped drive demand for American products abroad. While an uptick in net exports and spending on durable goods helped contribute to reported 3rd Quarter GDP growth, the underlying fundamentals behind the narrowing trade gap likely do little to suggest that the American economy has turned a corner.

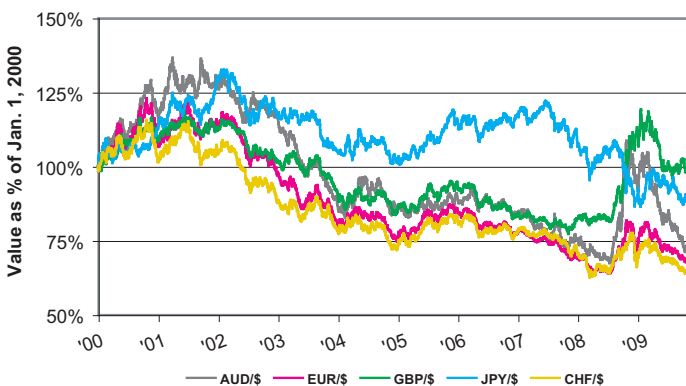
Consumer spending, which drives approximately two-thirds of GDP, showed signs of weakness in September, falling 0.5% from the month earlier. While this decrease was widely expected, it followed five consecutive months of positive consumer spending growth which had fueled hopes that the American consumer had regained its swagger. Much of the drop was attributed to the fact that the government's "cash for clunkers" program expired in August, leading to far fewer auto sales in September. Thus, it would appear that government stimulus was the driving force behind the consumer spending growth in the middle part of this year, rather than strong consumer demand and confidence as bulls would hope.

**FIGURE 2**  
**CONSUMER SENTIMENT AND SPENDING**

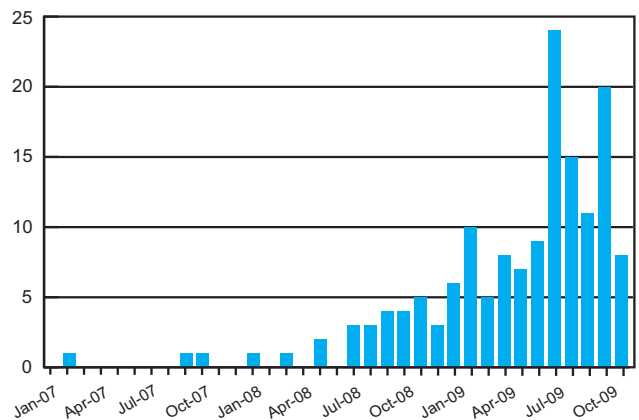


Government spending took many forms in 2009, as Congress, the Treasury Department, and the Federal Reserve Bank passed and implemented a slew of measures aimed at stimulating the economy. Programs at least partially successful at stimulating the economy included the previously mentioned "cash for clunkers" auto sales program and the first time home-buyer tax credit aimed at rejuvenating tumbling residential real estate markets. An unsuccessful program included the much-hyped Public-Private Investment Partnership program (PPIP), the announcement of which led to a two-day rally of the S&P 500 index of 8%. However, the PPIP program never really launched, as it was eclipsed by other stimulus programs, including loss-

**FIGURE 1**  
**VALUE OF DOLLAR VS. MAJOR CURRENCIES**



**FIGURE 3**  
**FDIC BANK FAILURES BY MONTH**



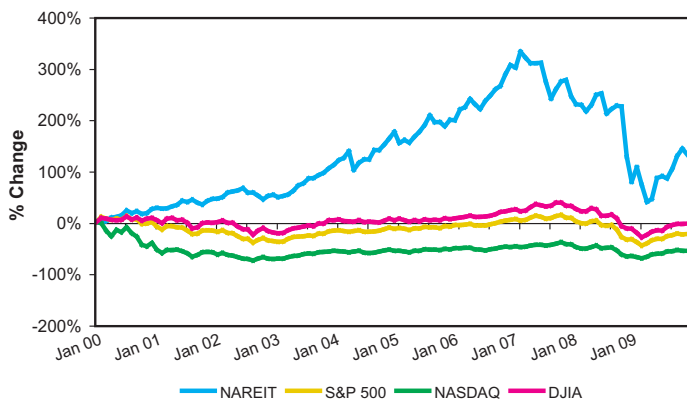
sharing joint venture arrangements between the FDIC and investors, as well as the Term Asset-Backed Loan Facility (TALF), which aims to restart the securitized debt markets. These programs, coupled with bank seizures (see Figure 3), have led the Federal Reserve Bank's balance sheet to more than double from \$619 billion at the end of 2007 to more than \$1.2 trillion currently. The Fed and Congress will have a very difficult task winding down some of these programs without stunting growth or causing significant inflationary pressure.

## CAPITAL MARKETS

This past year has seen some remarkable volatility in the capital markets. Equity markets continued to free fall from their peak in October of 2007 and bottomed out in March 2009, before rebounding strongly in the second and third quarters.

REIT's faced even more volatility than the general equity markets. Conventional wisdom held that the REIT sector was hopelessly overlevered, and REIT's struggled to find new credit to retire expiring mortgages and credit lines. This scenario led General Growth Properties (GGP), the second largest retail space operator in the country, to declare bankruptcy in April. While GGP was struggling, many of its fellow REIT's were busy issuing secondary stock offerings, with over \$15 billion in new equity capital being raised in the first half of the year. The ability to raise substantial equity led to a restoration of confidence in the sector, and the NAREIT index soared 66% from its low of 1,430 in February to 2,384 as of the end of October.

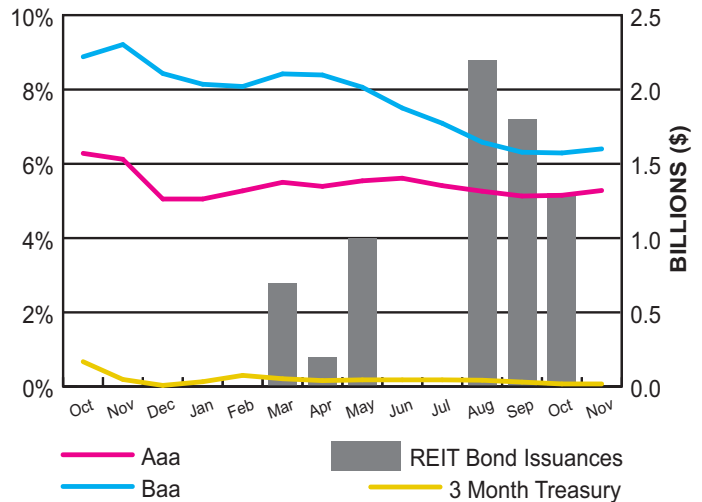
**FIGURE 4**  
**NAREIT VS MAJOR INDICES**



In addition to raising new equity capital and enjoying a nice stock price run up, REIT's also took advantage of a settling bond market and began accessing debt capital. In December of 2008, spreads on Treasury notes went slightly negative, implying that investors were so shaken that they were actually willing to pay the United States government to keep their money safe. The phenomenon only lasted a few hours, but bond spreads in general reflected the uncertain investment environment. However, over the course of the year, bond markets settled, with Baa spreads contracting from around 9.5% in late October 2008 to around 6.4%.

While the stock and bond markets rebounded in 2009, the same cannot be said of the real estate markets. Residential real estate values, widely recognized as the first domino to fall in

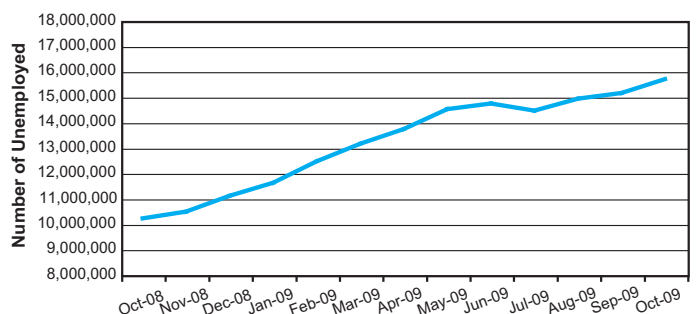
**FIGURE 5**  
**CORPORATE BOND SPREADS AND REIT ISSUANCES**  
**2009 THROUGH NOVEMBER**



the economic collapse, continued to fall, with the Case-Shiller Index exhibiting an 11% year over year decline through August, and delinquency rates on Fannie Mae mortgages rising to 0.62%, up from 0.16% one year ago. The good news with respect to residential real estate is that inventory levels have begun to decline, and existing-home sales growth has returned. Even with this positive news, most experts predict that national home values will not begin to rise materially until late 2011 or even 2012.

The commercial real estate market has also faced its share of pain. The MIT commercial property index indicates that commercial property values are down 40% from their peak in October 2007, and the Integra Commercial Property Index predicts a further decline of 5% in the next six months. The retail and hospitality markets have been hit the hardest, with retail vacancy reaching 8.69% nationally, up from 7.56% a year earlier, and the hospitality industry facing drastic declines in both occupancy levels and room rates. While office markets have been affected by the downturn, with the national CBD office vacancy rate rising from 11.16% at the end of 2008 to 13.42% at the close of 2009, office space demand hasn't fallen off as precipitously as non-farm employment losses would suggest. This indicates that there will likely be a strong downward lagged effect on office vacancy and rental rates.

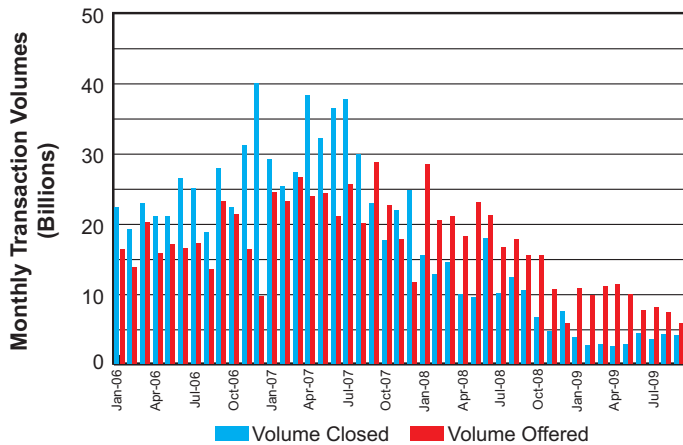
**FIGURE 6**  
**U.S. UNEMPLOYMENT**



The industrial sector was less volatile than its peers, and while the multifamily market experienced a slight decline in overall values, multifamily cap rates remain well below those of other major property types.

Commercial real estate transaction volumes have dropped precipitously since September 2007. Transaction volume ended 2007 up 15% despite the year-over-year decreases late in the year. However, transaction volume dropped over 60% in 2008, and has dropped over 70% through September 2009. The following chart displays total transaction volumes for office, retail, industrial and apartment properties as reported by Real Capital Analytics. The data indicates significant volume of potential transactions that are not occurring due to the lack of available financing and gap in pricing expectations of buyers and sellers.

**FIGURE 7**  
**COMMERCIAL PROPERTY TRANSACTION VOLUMES**



Source: Real Capital Analytics, Compiled by Integra Realty Resources

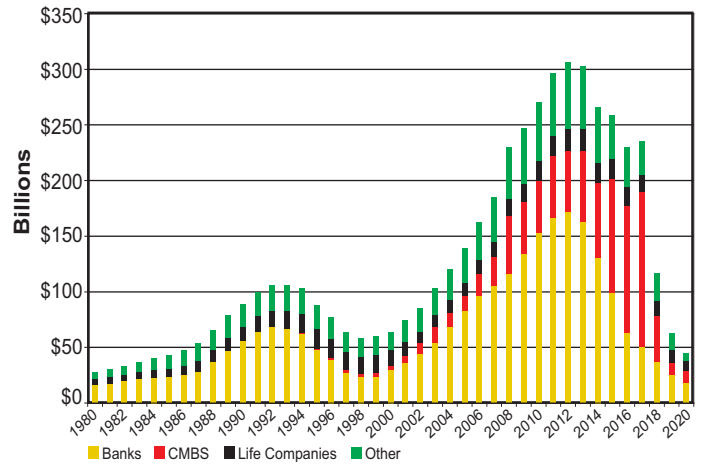
## THE ROAD AHEAD

IRR expects that 2010 will continue to provide mixed signals with regard to the recovering economy and real estate markets. While positive GDP growth has returned for now, it will be interesting to watch how long the Fed and Congress can continue to stimulate the economy without spurring significant inflation. While serious inflation growth isn't likely a threat for most of 2010, it could become a concern in 2011 and beyond, especially if the political will to tighten fiscal policies upon receipt of positive economic news does not exist, as likely will be the case for the 2010 Congressional election year.

Transactions volumes should recover from their lows in 2008 and 2009 due to the return of some liquidity in the credit markets, however, volumes are still likely to be half of their 2006-07 highs. Commercial mortgage loan maturities are expected to top \$250 billion for the first time in 2010 before peaking in 2012 at over \$300 billion. Total maturities through 2012 are expected to exceed \$1.1 trillion. In order to refinance much of this maturing debt, the capital markets will need to restart the securitization financing engine, or find a replacement for this capital source, which accounted for 44% of all commercial mortgage lending in 2007. Developers Diversified Realty (DDR) recently priced a \$400 million CMBS transaction, with only \$72 million of the bond buyers using TALF leverage, indicating that there is some pent up demand

for properly structured commercial mortgage pools. Most market participants agree, however, that lenders will be required to keep more skin in the game by retaining larger portions of commercial mortgage securitizations if CMBS issuers wish to return to bond origination levels on the order of 2007 highs.

**FIGURE 8**  
**COMMERCIAL MORTGAGE MATURITIES**



Source: Foresight Analytics, LLC

Two economic pitfalls that IRR will be monitoring closely will be consumer credit and oil prices. Rising unemployment coupled with the country's low savings rate in recent years indicates that there is significant danger that consumer credit delinquencies and defaults could rise drastically in 2010, which could lead to another pullback in credit, much as residential mortgage defaults led to a credit crunch across nearly all sectors. Secondly, as the economy begins to recover, the demand for oil will recover as well, which could lead to a spike in oil prices, and rising oil prices could sap much of the wind from the sails of economic recovery.

The National Association of Business Economists (NABE) predicts that U.S. employers should begin adding employees to their payrolls in the 2nd Quarter of 2010. While this is positive news, NABE also forecasts that employers will not add back all of the 7.3 million jobs cut since the beginning of the recession until early in 2012. The lack of an employment rebound will act as a drag on demand for office space, as well as consumer spending, which will in turn affect the demand for retail and distribution space.

Investors and governments the world over will be keeping a close eye on the falling value of the dollar. The falling dollar will make U.S. investments cheaper for foreign investors, and as a result, IRR expects that foreign investors will likely comprise a large portion of investor demand for U.S. real estate. Additionally, corporations, flush with more cash on their balance sheets than at any time since the 1950s, are likely to take advantage of low asset prices and purchase real estate, especially assets that they occupy. Finally, residential markets will likely recover in some of the stronger markets, but markets with supply gluts and high foreclosure rates will not see recovery until after 2010.

# NEW INVESTMENT CRITERIA

As the nation's largest independent firm focusing solely on valuation and counseling, Integra Realty Resources is uniquely positioned to provide insights into the real estate industry ranging from a comprehensive view of property sectors and the macroeconomic trends that impact their performance to focused analysis of individual transactions and developments that shape submarket dynamics.

This *IRR-Viewpoint* publication gives you a snapshot at the end of 2009 of the conditions in major metropolitan areas in the Office, Retail, Apartment, and Industrial sectors. The information in this publication is the result of an extensive survey of individual markets by the IRR professionals nationwide. We have also provided summaries of the Lodging, Seniors Housing, Self-Storage and Gaming sectors, in addition to updates regarding the Mexican and Canadian real estate markets and issues surrounding "green" development. This information allows industry participants to evaluate the various market areas and develop a base of knowledge that relates the factors that impact each real estate property type. However, it is important to recognize that each individual market area consists of several submarkets that each exhibit distinct characteristics. When focused expertise is required to guide investment and risk management decision-making, local IRR professionals can help you gain in-depth insight into the details of the individual submarkets that impact your business the most.

**TABLE 9**  
**2009 CAP RATE RANKS**

2009 Rank	Property Type	2009 Low (%)	2009 High (%)	2009 Avg. (%)
1	Suburban Multifamily	6.5	9.0	7.8
2	Urban Multifamily	6.0	9.8	7.8
3	Regional Mall	7.0	9.8	8.2
4	Community Mall	7.0	9.8	8.4
5	CBD Office	7.0	12.5	8.6
6	Bulk	7.5	10.0	8.7
7	Office/Warehouse	7.5	11.0	8.7
8	Suburban Office	7.0	11.0	8.7
9	Neighborhood Strip	7.5	10.5	8.8
10	R&D	7.5	11.0	9.0
11	Manufacturing	8.0	11.5	9.1
12	CBD Lodging	8.0	12.0	9.8
13	Airport Lodging	9.0	12.0	10.2
14	Suburban Lodging	8.5	12.0	10.3

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In the New Investment Criteria section, we summarize the survey results, and highlight changes that have occurred over the last year. In the following sections of *IRR-Viewpoint 2010* we dive deeper into each of the four main property types: office, retail, apartment and industrial.

## OFFICE MARKET

In the office sector cycle, we find a continuation of last year's shift from expansion to hypersupply and recession. Whereas last year marked a great exodus from expanding office markets, we find that this departure is now complete; we report zero office markets currently in the expansion phase. Many of the markets which were determined to be in hypersupply last year, such as New York, Denver and Orlando, are now experiencing recessionary conditions.

## RETAIL MARKET

As a result of the continued effects of the economic recession through the first half of 2009, bankruptcies and consolidations of many major retailers resulted in declining conditions for many retail markets which were already noticeably depressed. This year we note that over 95% of the national retail markets surveyed are experiencing some stage of hypersupply or recession. We anticipate that improvement in the retail market will be painstaking for most of the nation.

## APARTMENT MARKET

After two years of expansion in the apartment market, we report that the trend of increasing supply has stopped in most markets. In many formerly hot condominium markets, additions to the apartment market came from significant conversions to for-rent properties. As these additions have slowed, along with limited new construction and depressed job markets, the apartment market has been destabilized. Markets which are either in hypersupply or recession comprise over 90% of those surveyed, compared with 50% in the previous year.

**TABLE 10**  
**PROJECTED CAP RATE CHANGE**

Property Type	Decline (%)	Increase (%)	Stable (%)
CBD Office	0.0	77.8	22.2
Suburban Office	0.0	77.8	22.2
Regional Mall	0.0	80.4	19.6
Community Mall	0.0	84.9	15.1
Neighborhood Strip	0.0	79.6	20.4
Manufacturing	0.0	74.0	26.0
Bulk	0.0	76.0	24.0
Office/Warehouse	0.0	75.5	24.5
R&D	0.0	78.4	21.6
Urban Multifamily	2.0	76.5	21.6
Suburban Multifamily	1.9	77.4	20.8
CBD Lodging	0.0	80.4	19.6
Suburban Lodging	0.0	84.6	15.4
Airport Lodging	0.0	84.6	15.4
<b>AVERAGE</b>	<b>0.3</b>	<b>79.1</b>	<b>20.6</b>

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TABLE 11

**CAPITALIZATION RATES, DISCOUNT RATES, REVERSION RATES, MARKET RENT CHANGE RATES, EXPENSE GROWTH RATES AND TENANT FINISH ALLOWANCES**

Property Types	Atlanta, GA	Austin, TX	Baltimore, MD	Boise, ID	Boston, MA	Charlotte, NC	Chicago, IL	Cincinnati, OH	Cleveland, OH	Columbia, SC	Columbus, OH	Dallas, TX	Dayton, OH	Denver, CO	Detroit, MI	Fort Worth, TX	Greenville, SC	Hartford, CT	Houston, TX	Indianapolis, IN	Kansas City, MO/KS	Las Vegas, NV	Long Island, NY	Los Angeles, CA	Louisville, KY	Memphis, TN	Miami, FL
<b>GOING-IN CAP RATE (%)</b>	CBD Office 9.75	9.50	8.50	7.50	7.00	8.00	7.75	9.50	9.50	9.25	8.50	8.50	12.50	7.00	10.25	8.50	8.75	10.00	8.75	9.00	8.50	7.00	8.25	8.00	9.00	9.50	9.00
Suburban Office	9.50	10.00	8.50	8.00	8.50	8.50	8.75	9.75	9.00	9.00	8.50	8.50	9.75	8.00	9.00	8.50	8.75	9.00	9.25	8.75	8.00	7.50	8.50	7.50	9.50	8.75	8.50
Regional Mall	8.50	9.00	9.50	7.50	8.00	8.00	8.25	9.25	7.75	8.00	8.75	8.25	9.75	7.00	8.50	8.25	8.00	8.00	9.50	8.00	7.50	7.50	7.25	8.00	9.00	8.00	7.50
Community Mall	8.50	9.50	8.50	8.00	8.50	8.00	8.50	9.00	8.00	8.25	8.50	8.00	9.25	8.00	8.75	8.00	8.25	9.00	9.75	8.75	8.00	7.00	8.00	8.00	9.00	8.00	8.50
Neighborhood Strip	9.00	10.00	8.25	8.25	9.00	8.25	8.50	9.75	8.75	8.50	9.00	8.25	9.75	9.50	9.00	8.25	8.50	9.00	10.50	9.25	8.00	8.50	8.25	7.50	9.00	9.25	8.50
Manufacturing	10.00	11.00	9.00	8.00	9.00	9.50	9.25	9.50	9.75	8.75	9.00	8.25	9.75	9.50	9.00	9.00	9.50	9.50	11.50	9.00	9.00	8.00	8.00	8.00	9.00	9.00	9.00
Bulk	9.00	11.00	8.75	8.00	8.50	9.00	9.00	9.50	8.50	8.25	8.50	8.50	9.50	8.50	8.50	8.50	8.25	9.75	9.00	9.00	8.00	8.00	8.00	7.00	9.00	8.50	8.00
Office/Warehouse	9.00	11.00	8.75	8.50	8.50	9.00	9.00	8.50	8.75	8.75	8.50	9.50	9.50	8.50	8.50	9.50	8.50	9.75	9.00	9.75	8.00	8.00	8.00	7.50	9.00	9.00	8.00
R&D	9.00	11.00	9.25	8.00	9.00	9.50	9.00	9.25	9.00	8.75	8.75	8.75	9.50	9.00	9.50	8.75	9.00	9.50	9.25	9.75	9.00	8.00	8.25	8.00	9.00	9.00	8.00
Urban Multifamily	8.00	9.00	6.75	7.00	6.25	7.25	8.75	8.00	8.00	7.75	7.75	9.25	6.75	9.75	7.75	8.00	7.75	8.50	9.00	8.00	8.00	8.00	7.00	8.50	7.50	8.50	7.50
Suburban Multifamily	8.25	9.00	6.75	7.50	7.25	7.25	8.75	8.00	7.75	8.00	8.00	9.00	7.00	8.75	8.50	7.50	8.25	8.75	8.50	7.50	8.00	8.00	7.25	7.00	8.50	7.75	8.50
CBD Lodging	9.50	11.50	10.50	10.00	9.50	10.50	9.00	10.75	9.50	10.25	10.25	9.50	12.00	9.50	10.50	9.50	10.25	11.00	9.75	9.25	8.50	9.75	9.00	10.00	9.75	11.00	11.00
Suburban Lodging	10.00	12.00	11.00	10.50	9.50	11.25	11.00	10.50	9.50	10.75	10.50	10.00	12.00	10.00	10.00	10.00	10.75	12.00	10.00	9.75	8.50	9.75	9.00	11.00	9.75	11.00	11.00
Airport Lodging	10.00	12.00	11.00	10.50	9.50	11.25	11.00	10.75	9.50	10.75	10.50	9.50	12.00	10.50	9.75	9.50	10.75	11.00	10.00	10.25	9.00	10.00	9.00	11.00	11.00	11.00	11.00
<b>GOING-IN DISCOUNT RATE (%)</b>	CBD Office 11.50	11.00	10.00	9.75	8.50	9.25	8.75	11.50	9.25	9.50	9.50	14.00	8.50	11.25	9.50	10.00	11.50	10.25	9.75	9.50	9.00	10.00	9.25	10.00	10.50	10.50	10.50
Suburban Office	11.00	11.50	10.00	10.25	10.00	9.75	9.75	11.50	9.00	10.25	9.50	11.50	9.00	10.75	9.50	10.00	11.25	10.75	9.50	9.00	9.00	10.00	9.50	10.00	10.80	9.50	11.00
Regional Mall	10.00	11.00	11.25	9.75	9.50	10.00	9.75	11.00	9.50	10.25	9.75	9.75	11.00	8.50	9.50	9.75	10.25	10.50	11.00	9.00	8.50	10.00	8.75	10.00	10.50	10.00	9.00
Community Mall	10.00	12.00	10.25	10.25	10.00	10.00	10.00	10.50	9.50	9.50	9.50	10.00	9.00	9.75	9.50	10.30	11.25	9.53	9.00	9.00	9.00	9.00	10.00	10.00	10.50	10.00	10.50
Neighborhood Strip	11.00	12.00	10.00	10.50	10.50	9.50	10.00	11.00	9.50	9.50	10.00	9.25	11.00	11.00	10.00	9.25	9.50	10.30	12.00	10.50	9.00	10.00	9.50	9.50	10.00	10.25	10.50
Manufacturing	11.50	12.00	10.75	10.25	10.50	10.75	11.25	11.00	11.00	9.25	9.75	11.00	10.25	11.00	9.75	9.75	12.75	12.75	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.75
Bulk	10.50	12.00	10.25	10.25	10.00	10.25	10.75	11.00	9.75	8.75	9.00	11.00	10.00	11.25	9.00	9.50	12.00	10.50	10.00	9.00	10.00	9.50	9.00	10.00	10.00	10.00	9.75
Office/Warehouse	10.50	12.00	10.25	10.75	10.00	10.25	10.75	10.00	9.50	9.25	9.00	11.00	11.00	11.50	9.00	9.50	11.50	10.50	10.75	9.00	10.00	9.50	9.50	9.50	10.00	10.25	10.00
R&D	10.50	12.00	10.75	10.25	10.50	10.75	10.75	10.25	10.50	9.25	9.75	11.00	10.00	11.25	9.75	10.25	11.50	10.75	10.75	10.00	10.00	9.75	10.00	9.75	10.00	10.00	10.50
Urban Multifamily	9.50	10.50	8.25	9.25	7.75	8.25	10.50	9.75	10.25	8.25	9.25	10.50	8.75	9.75	9.75	9.00	10.25	11.00	10.00	10.75	9.00	11.00	8.00	9.00	9.50	8.50	10.00
Suburban Multifamily	9.75	10.50	8.25	9.75	8.75	8.50	10.25	9.75	10.00	8.50	9.50	10.25	9.25	9.75	9.50	9.75	10.50	10.25	10.00	8.50	11.00	8.00	9.00	9.50	8.75	10.00	
CBD Lodging	11.00	12.00	12.00	12.25	11.50	12.00	10.00	12.75	11.00	11.75	12.00	10.50	13.00	11.00	11.25	10.50	11.75	13.00	11.25	11.75	11.00	11.00	11.00	11.00	12.50	12.50	15.00
Suburban Lodging	11.50	12.00	12.50	12.75	11.50	12.75	12.00	12.50	11.00	12.00	12.50	11.50	13.00	12.00	10.75	11.50	12.00	14.00	11.50	12.00	11.00	10.00	11.00	13.50	12.50	15.00	
Airport Lodging	11.50	12.00	12.50	12.75	11.50	12.75	12.00	12.75	11.00	12.00	12.50	11.00	13.00	12.00	10.78	11.00	12.00	14.00	11.50	12.50	11.00	10.50	11.00	13.50	14.00	15.00	
<b>REVERSION CAP RATE (%)</b>	CBD Office 10.25	10.00	9.00	8.00	7.50	8.50	8.25	9.75	10.00	9.00	9.00	8.75	13.00	7.50	10.75	8.75	9.00	10.25	9.25	9.50	9.00	10.50	8.50	8.50	9.50	10.00	9.50
Suburban Office	10.50	10.50	9.00	8.50	9.00	8.75	9.25	10.00	9.50	8.75	9.00	8.75	10.00	8.50	9.50	8.75	8.75	10.00	9.75	9.25	8.50	10.50	8.75	8.00	10.00	9.25	9.00
Regional Mall	9.00	9.50	10.00	8.00	8.50	8.50	8.75	9.50	8.75	8.75	9.25	8.50	9.75	7.75	9.00	8.50	8.75	10.00	10.00	8.50	8.00	10.50	7.50	8.50	9.50	8.50	8.50
Community Mall	9.00	10.50	9.00	8.50	9.00	8.50	9.00	9.25	8.50	8.50	9.00	8.25	10.00	8.50	9.25	8.25	8.50	10.00	10.25	9.25	8.50	11.50	8.50	8.50	9.50	9.50	9.00
Neighborhood Strip	9.50	10.50	8.75	8.75	9.50	8.50	9.00	10.00	9.25	8.50	9.50	8.50	10.00	9.75	9.50	8.50	8.50	10.00	11.00	9.75	8.50	11.00	8.75	8.00	9.50	9.50	9.00
Manufacturing	10.50	12.00	9.50	8.50	9.50	9.75	9.50	10.00	9.75	9.25	9.25	10.25	9.25	10.50	9.25	9.50	11.50	9.75	12.00	9.50	10.50	10.00	8.50	10.50	9.50	9.00	
Bulk	9.50	12.00	9.25	8.50	9.00	9.25	9.25	10.00	8.50	8.75	8.75	10.25	9.00	10.50	8.75	8.25	11.50	9.50	9.50	8.50	10.50	9.00	7.50	10.50	9.00	9.00	
Office/Warehouse	9.50	12.00	9.25	9.00	9.00	9.25	9.25	9.00	9.50	9.25	8.75	10.25	9.25	10.00	8.75	9.25	11.50	9.50	10.25	8.50	10.50	9.00	8.00	10.50	9.50	8.50	
R&D	9.50	12.00	9.75	8.50	9.50	9.75	9.25	9.75	9.25	9.25	9.25	10.50	9.00	11.00	9.00	11.00	9.75	10.25	9.50	9.50	9.50	9.25	8.50	10.50	9.50	9.50	
Urban Multifamily	8.50	9.50	7.25	7.50	6.75	7.50	9.00	7.75	8.25	8.00	7.75	9.75	7.25	10.25	7.75	8.25	10.00	9.00	9.50	8.50	9.50	8.25	7.50	9.00	8.00	9.00	
Suburban Multifamily	8.75	9.50	7.25	8.00	7.75	7.50	9.00	7.75	8.00	8.25	8.00	7.75	9.25	8.00	7.75	9.25	8.00	9.50	9.25	9.00	8.00	9.00	7.75	7.50	9.00	8.25	9.00
CBD Lodging	10.00	12.00	11.25	10.50	10.25	11.00	9.50	11.00	9.75	10.50	11.00	9.75	13.00	10.00	11.00	9.75	10.50	12.50	10.25	9.75	9.00	10.50	9.50	11.00	10.25	11.50	
Suburban Lodging	10.50	12.50	11.75	11.00	10.25	11.75	11.50	10.75	9.75	10.75	11.00																

TABLE 11 continued

Minneapolis, MN	Naples/Ft. Myers, FL	Nashville, TN	New Jersey, Coastal	New Jersey, Northern	New York, NY	Oakland, CA	Orange County, CA	Orlando, FL	Philadelphia, PA	Phoenix, AZ	Pittsburgh, PA	Portland, OR	Providence, RI	Richmond, VA	Sacramento, CA	Salt Lake City, UT	San Antonio, TX	San Diego, CA	San Francisco, CA	San Jose, CA	Sarasota, FL	Seattle, WA	St. Louis, MO	Syracuse, NY	Tampa, FL	Tulsa, OK	Washington, DC	Wilmington, DE	Averages	
7.50	8.75	8.25	9.30	8.50	7.25	8.00		8.00	8.50	9.00	9.50	8.50	10.50	8.25	7.75	8.00	9.50	7.50	7.50	8.00	8.75	7.50	9.00	9.15	8.50	10.00	7.00	8.25	8.61	
8.00	8.75	7.75	8.80	8.75	8.25	8.50	9.00	8.50	9.00	9.00	9.00	9.00	10.00	8.50	8.25	8.00	9.00	8.00	8.50	8.50	8.75	8.00	9.00	9.15	9.00	9.50	8.00	9.00	8.70	
7.25	8.50	8.75	7.40	7.50	7.25	9.50	7.50		7.75	9.25	9.00			8.75	7.75	7.50	7.75	8.75	7.25	9.50	9.50	8.50	7.00	8.50	8.50	7.50	7.25	8.22		
8.25	8.50	9.00	7.90	8.50	8.00	8.50	8.00	8.75	8.50	9.50	9.00	8.00	9.50	8.25	8.00	8.00	8.25	7.00	8.50	8.50	8.50	7.75	9.00	9.50	8.75	8.50	8.00	8.43		
8.75	9.00	8.50	8.10	9.00	8.00	9.00	8.50	8.50	8.25	9.50	9.25	8.00	9.75	8.25	8.25	8.25	8.25	8.00	9.00	9.00	9.00	8.00	8.75	10.00	8.50	10.00	8.25	8.50	8.76	
9.25	9.25		8.50	10.00	8.75	9.00	8.50		9.00	9.50	9.75	9.00	10.00	8.25	8.75	8.25	9.00	8.00	8.50	9.00	9.25	8.25	9.00	9.95	9.00	9.00	9.00	9.00	9.12	
9.00	9.25		8.10	9.00	7.50	8.00	8.00	8.50	8.25	9.50	9.75		10.25	8.00	7.75	8.25	9.00	8.00	7.50	8.00	9.25	8.25	8.50	11.00	9.00	9.00	8.75	8.50	8.71	
9.00	9.00	9.00	8.00	9.00	7.50	8.00	8.50	9.00	8.50	9.00	9.50	8.00	10.00	8.00	8.00	8.25	9.00	7.50	7.50	8.00	9.00	8.25	8.50	9.90	9.00	10.00	8.75	8.50	8.71	
9.00	9.00		8.40	9.50	8.00	10.00	9.00	9.00	8.75	10.00	9.50	8.50	10.00	7.75	8.25	8.00	9.00	7.50	9.00	10.00	9.00	8.75	9.00		9.25	8.50	9.00	9.50	8.98	
7.00	8.75		8.00	8.25	6.75	7.00	7.00		7.25	8.50	7.75	8.00	9.25	7.00	7.25	7.50	7.50	6.25	6.00	6.75	8.75	7.75	9.25	9.50	8.00	6.50	7.50	7.82		
7.50	8.75		7.60	7.50	7.00	6.75	6.50	8.00	7.50	8.50	7.75	7.50	8.75	7.00	7.25	7.50	7.50	7.00	6.75	7.00	8.75	8.25	8.25	9.00	8.00	8.50	6.50	7.00	7.80	
10.00	10.00		9.10	10.00	9.25	9.50	10.00		10.00	9.00	9.00	8.50	11.50	9.50	9.25	9.00	9.50	8.00	8.75	9.50	10.00	10.00	9.25		10.00	10.50	9.50	9.81		
11.00	10.00		10.00	10.00	9.50	10.00	11.00	11.00	10.00	9.50	10.25	10.00	11.50	11.50	9.50	9.00	10.00	10.00	9.25	10.00	10.00	10.00	10.25		11.00	11.00	11.00	9.50	10.30	
10.25	10.00		10.00	10.50	9.00	9.75	9.50	11.00	10.00	9.50	10.25	9.50	11.00	11.50	9.50	9.00	10.00	9.00	9.50	9.75	10.00	10.00	9.75		10.50	11.00	9.50	10.20		
9.00	10.00	9.25	10.99	9.75	8.50	10.00		9.50	9.50	10.00	9.50	9.50	12.00	9.00	8.50	9.50	11.50	8.50	9.50	10.00	10.00	9.75		10.00	13.00	8.25	9.50	9.95		
9.50	10.00	8.50	10.49	9.50	8.75	10.50	11.00	10.00	9.75	10.50	9.25	10.50	12.25	9.25	9.25	10.50	11.00	9.50	10.50	10.00	10.00	9.75		10.50	12.50	9.25	9.75	10.10		
8.50	10.00	9.00	9.09	9.00	8.50	12.00	9.50		10.25	10.50	10.75		11.25	9.50	9.00	9.75	10.00	8.50	12.00	12.00	10.00	9.00	10.50		9.00	9.00	8.50	9.86		
9.25	10.00	9.50	9.59	9.25	9.25	11.00	10.00	10.25	9.50	11.00	10.50		9.25	11.50	9.50	10.00	9.50	8.25	11.00	11.00	10.00	10.00	10.00		9.75	9.50	9.00	9.91		
9.75	10.00	8.75	9.79	9.75	9.25	11.50	10.50	10.00	9.25	11.00	10.00		9.50	12.00	9.50	9.00	10.00	9.50	9.25	11.50	11.50	10.00	9.75		9.50	12.50	9.50	9.00	10.12	
10.00			10.19	11.00	9.75	11.50	10.50		10.00	10.50	11.50		10.25	12.50	9.50	9.75	9.50	10.25	9.00	10.50	11.50	10.00	10.50		10.00	10.25	10.25	10.25	10.48	
10.00			9.79	10.00	9.25	10.00	10.00	10.00	9.00	10.50	11.50		12.50	9.25	8.75	9.50	10.25	8.75	9.50	10.00		10.50	9.75		10.00	12.00	10.00	9.25	10.06	
10.00			9.69	10.00	9.25	10.00	10.50	10.50	9.50	10.50	11.00		9.25	12.00	9.25	9.00	9.50	10.25	8.75	9.50	10.00	11.25	10.50	9.75		10.00	13.00	10.00	9.50	10.14
10.00			10.09	10.50	10.00	12.00	11.00	10.50	10.00	11.50	11.00		10.00	12.00	9.00	9.50	10.25	8.50	11.50	12.00		11.75	10.25		10.50	11.50	10.25	10.25	10.48	
8.50	11.50		9.69	9.00	8.00	8.50	9.00		9.50	10.00	10.25		9.50	12.00	9.00	7.75	9.00	9.50	8.00	7.50	7.75	11.50	9.50	11.25		9.50	8.00	8.50	9.39	
8.75	11.50		9.29	8.75	8.00	8.00	8.50	9.50	9.75	10.00	10.25		8.50	11.00	9.00	7.75	9.50	9.50	8.00	8.00	8.25	11.50	10.75	10.25		9.75	12.00	8.50	8.50	9.44
11.50			10.79	11.00	9.50	10.75	12.00		11.50	11.00	12.00		11.50	13.50	11.50	11.00	10.50	11.00	8.25	10.00	10.75	12.00	11.25		12.00	11.50	11.00	11.43		
12.00			11.69	11.00	10.00	11.25	13.00	12.50	11.50	11.50	12.00		13.00	13.50	13.50	11.25	10.50	12.50	10.50	11.25	11.50	12.25	11.25		13.00	13.50	12.00	11.00	12.01	
11.25			11.69	11.50	10.50	9.00	11.50	12.50	11.50	11.50	12.00		13.25	13.50	11.25	10.50	12.50	11.00	10.75	9.00		12.00	11.75		12.00	12.00	11.00	11.84		
8.00	9.25	9.00	9.60	8.75	7.75	8.50		8.50	9.00	9.50	10.00		9.00	10.75	8.75	8.00	8.50	10.50	8.00	8.50	9.25	8.00	9.50	10.15	9.00	11.00	7.75	8.75	9.14	
8.50	9.25	8.00	9.10	9.00	8.50	9.00	9.50	9.00	9.25	10.00	9.50		9.50	10.50	9.00	8.50	8.50	10.00	9.25	9.00	9.25	8.50	9.50	10.15	9.50	10.50	8.25	9.00	9.22	
7.75	9.00	9.75	7.70	7.75	7.75	10.00	8.00		8.50	10.00	9.50		10.50	10.50	8.25	7.75	8.25	9.50	8.25	10.00	9.00	7.50	9.00	10.00	9.00	7.75	8.00	8.84		
8.75	9.00	10.00	8.20	8.75	8.50	9.00	8.50	9.25	8.75	11.00	9.50		8.50	10.50	8.75	8.25	8.50	9.00	8.25	9.00	9.00	8.25	9.50	10.00	9.25	8.75	8.25	9.04		
9.25	9.50	9.50	8.40	9.00	8.50	9.50	9.00	9.00	8.50	11.00	9.75		8.50	10.50	8.75	8.50	8.75	9.00	8.50	9.50	9.50	8.50	9.25	10.50	9.00	10.50	8.50	8.25	9.25	
9.75	9.75		8.80	10.50	9.00	9.50	9.00		9.50	10.00	9.75		9.50	12.00	8.75	9.00	8.75	10.00	8.50	9.00	9.50	9.75	8.75	9.50	10.50	9.50	9.50	9.25	9.71	
9.50	9.75		8.40	9.50	8.00	8.50	8.50	9.00	8.75	10.00	10.00		12.50	8.50	8.00	8.75	10.00	8.50	8.00	8.50	9.75	8.75	9.00	11.50	9.25	10.00	9.25	8.25	9.30	
9.50	9.50	9.25	8.30	9.50	8.00	8.50	9.00	9.50	8.75	10.00	9.75		8.50	13.00	8.50	8.25	8.75	10.00	8.25	8.00	8.50	9.50	9.00	10.50	9.25	11.00	9.25	8.75	9.35	
9.50	9.50		8.70	9.75	8.50	10.50	9.50	9.50	9.25	11.00	10.00		9.00	13.50	8.25	8.50	8.75	10.00	8.50	9.50	10.50	9.50	9.25	9.50	9.75	9.50	9.50	9.75	9.62	
7.50	9.25		8.30	8.50	7.00	7.50	7.50		8.00	9.00	8.25		8.50	10.50	8.00	7.50	8.00	8.00	8.00	7.00	7.25	9.25	8.25	9.75	10.50	8.50	7.00	8.00	8.35	
8.00	9.25		7.90	8.00	7.25	7.25	7.00	8.50	8.00	9.00	8.25		8.00	10.50	8.00	7.50	8.00	8.00	8.50	7.75	7.50	9.25	8.25	8.75	10.00	8.50	7.00	8.00	8.34	
10.50	10.50		9.40	11.00	10.50	9.25	10.50		10.25	10.00	10.75		9.00	13.00	10.00	9.50	9.50	10.50	8.25	8.50	9.25	10.50	10.50	9.75		10.50	11.25	9.75	10.34	
11.50	10.50		10.30	11.00	10.50	9.75	11.50	11.50	10.25	10.50	10.75		10.50	13.00	12.00	10.00	9.50	11.00	11.25	9.00	9.75	10.50	10.50	10.75		12.00	12.00	11.75	9.75	10.87
10.75	10.50		10.30	11.00	10.50	9.50	10.00	11.50	10.25	10.50	10.75		9.50	13.00	12.00	10.00	9.50	11.00	11.25	9.00	9.75	10.50	10.50	10.75		11.00	11.75	9.75	10.78	
0.00	-5.00	-3.00	1.00	-3.00	-3.00	-5.00	-3.00	0.00	0.00	1.50	0.00	0.00	-5.00	0.00	-6.00	0.00	2.00	0.00	-5.00	-5.00	-5.00	-10.00	0.00	-1.40	-3.00	0.00	0.00	0.00	-1.75	
0.00	-5.00	-2.00	1.00	-4.00	-5.00	-5.00	-5.00	-3.00	0.00	0.00	1.00	0.00	-5.00	0.00	-10.00	0.00	2.00	0.00	-5.00	-5.00	-5.00	-10.00	0.00	-0.40	-5.00	0.00	-3.00	0.00	-2.02	
0.00	-5.00	-2.00	3.00	0.00																										

## INDUSTRIAL MARKET

The hardships in the industrial market from reduced production activity which were forecasted last year have come to fruition. The number of industrial markets reporting recessionary trends increased from 15 to 39. With many manufacturing and assembly plants shutting their doors over the past 18 months, the additional supply placed back on the market has placed significant strain on the industrial markets across the nation.

## CAPITALIZATION AND DISCOUNT RATES

Capitalization and discount rates are important measures of the conditions in the real estate investment landscape. Rising capitalization rates can be a sign of weakness, and caution is warranted. On the other hand, decreasing capitalization rates are an indication of a strong market that is viewed optimistically by investors. Comparison of capitalization rates between various markets and submarkets is a useful exercise that can give a valuable indication of market conditions. However, capitalization rates for individual properties are affected by many factors. IRR representatives have intimate knowledge of the conditions within their markets, and can help you analyze specific submarkets and properties.

Discount rates are the annualized, expected rates of return for property investments and they also provide clues about the weakness or strength of a market. Basically, relatively low discount rates are an indication that the investors view the market as exhibiting relatively low risk. On the other hand, higher discount rates are an indication that a market is viewed as riskier.

## OVERALL YIELD RATES

Last year's projections of capitalization rate movements were unquestionably the most bearish forecasts in the history of *IRR Viewpoint* publication. Over all property types, 90.4% of those

surveyed projected that cap rates would increase. At a high, 98.2% projected that community mall cap rates would increase. At a low, if it can be called that, 81.5% projected that urban multifamily properties would experience increasing cap rates. One year later we observe that cap rates have moved unanimously upward at an average of 50 to 75 basis points. Looking forward, survey respondents have tempered projections of continued rate increases; though the forecast still calls for tenuous conditions. Overall, 79.1% of the respondents indicated cap rate increases, with the remainder stabilizing. Similar to last year, retail properties will likely experience the most widespread rate increases, while multifamily and certain industrial properties stand the best chance at maintaining current levels.

Similar to the trends witnessed in capitalization rates, discount rates increased across the board as had been projected last year. For the upcoming year, survey respondents indicated that 79.8% of property types are expected to experience increasing discount rates, with the remainder stabilizing. Along with retail, lodging markets are expected to continue to experience weak market fundamentals while multifamily and selected office property types are expected to realize some increased stability.

**TABLE 12**  
**2009 DISCOUNT RATE RANKS**

2009 Rank	Property Type	2009 Low (%)	2009 High (%)	2009 Avg. (%)
1	Urban Multifamily	7.5	12.0	9.4
2	Suburban Multifamily	7.8	12.0	9.4
3	Regional Mall	8.5	12.0	9.9
4	Community Mall	8.3	12.0	9.9
5	CBD Office	8.3	14.0	10.0
6	Bulk	8.8	12.5	10.1
7	Suburban Office	8.5	12.5	10.1
8	Office/Warehouse	8.8	12.5	10.1
9	Neighborhood Strip	8.8	13.0	10.1
10	Manufacturing	9.0	12.8	10.5
11	R&D	8.5	12.0	10.5
12	CBD Lodging	8.3	15.0	11.4
13	Airport Lodging	9.0	15.0	11.8
14	Suburban Lodging	10.0	15.0	12.0

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**TABLE 13**  
**PROJECTED DISCOUNT RATE CHANGE**

Property Type	Decline (%)	Increase (%)	Stable (%)
CBD Office	0.0	77.4	22.6
Suburban Office	0.0	77.4	22.6
Regional Mall	0.0	81.6	18.4
Community Mall	0.0	84.3	15.7
Neighborhood Strip	0.0	78.8	21.2
Manufacturing	0.0	75.5	24.5
Bulk	0.0	77.6	22.4
Office/Warehouse	0.0	76.9	23.1
R&D	0.0	80.4	19.6
Urban Multifamily	0.0	76.5	23.5
Suburban Multifamily	1.9	76.9	21.2
CBD Lodging	0.0	80.4	19.6
Suburban Lodging	0.0	86.5	13.5
Airport Lodging	0.0	86.5	13.5
<b>AVERAGE</b>	<b>0.1</b>	<b>79.8</b>	<b>20.1</b>

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# OFFICE: CBD & SUBURBAN

will experience very similar pricing forces in the next year, with cap rates for both types expected to rise in 77.8% of the markets surveyed. Remaining markets' cap rates are expected to remain stable.

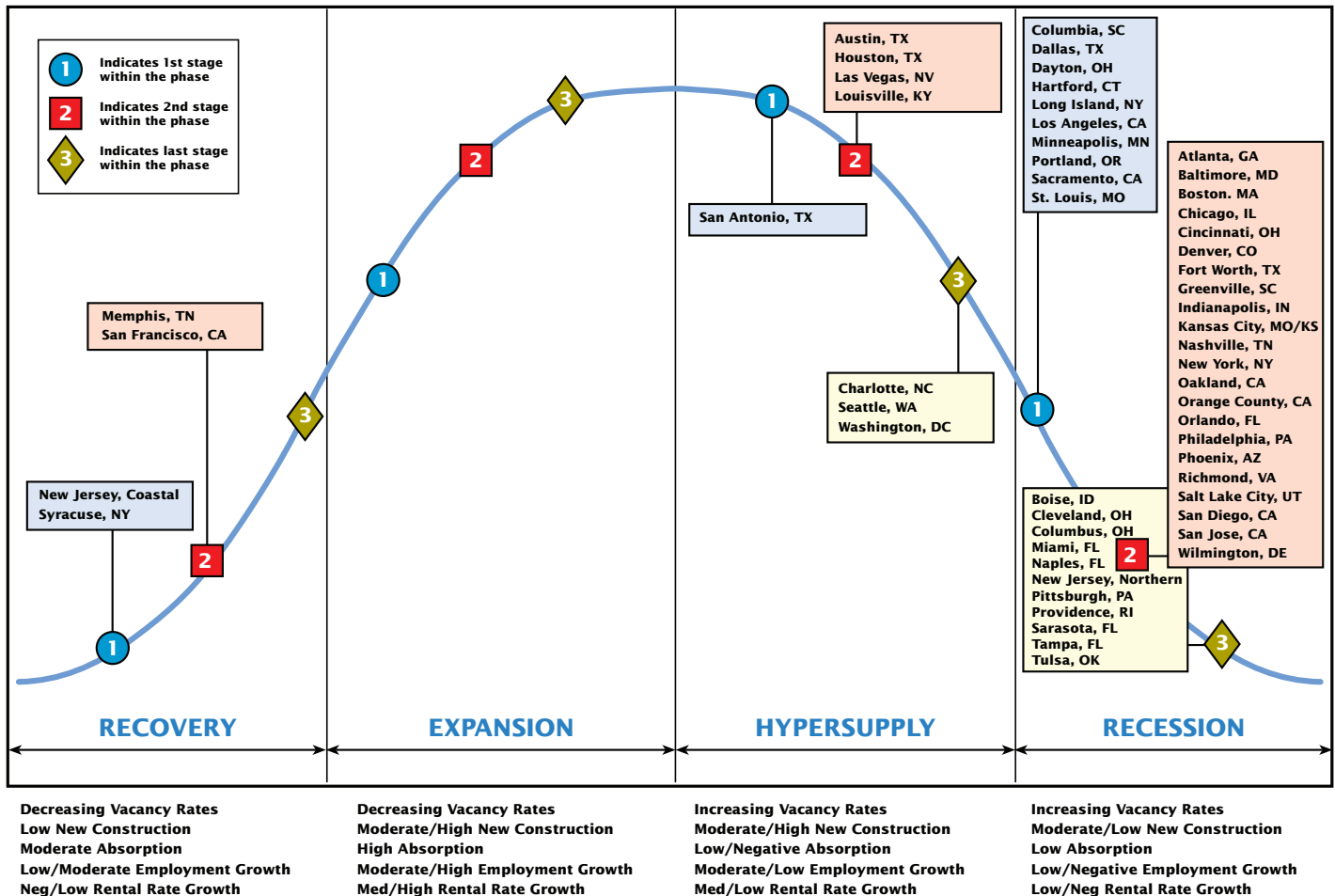
- CBD office cap rate and discount rate ranking each improved two spots from number seven to five.
- Suburban office cap rate rank fell from sixth to eighth, while its discount rate rank improved from eighth to seventh.
- CBD office cap rates range from 7.0% to 12.5%, with an average of 8.61%. Discount rates range from 8.3% to 14.0%, with an average of 9.95%.
- Suburban office cap rates range from 7% to 11%, with an average of 8.70%. Discount rates range from 8.5% to 12.5%, with an average of 10.10%.

The CBD office weighted average vacancy rate is currently 13.42%. Compared with an 11.16% vacancy rate last year, we find that CBD office occupancies increased in most metropolitan areas. Similarly, suburban office vacancies have

## CBD OFFICE BY THE NUMBERS

- The CBD office cap rates increased 61 basis points, while the suburban office cap rates increased by 73 basis points.
- For the first time since 2005 suburban cap rates exceed those of CBD cap rates.
- At 8.70% and 8.61%, suburban and CBD cap rates are at their highest since 2004. However, cap rates are still below those witnessed in any year between 1990 and 2004.
- Survey respondents project that cap rates and discount rates

**FIGURE 14**  
**CBD OFFICE MARKET CYCLE**



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increased from 14.81% to 16.45%. The increasing cap rates and discount rates indicate market concern that vacancies may continue to increase in the near term.

The projection for years required to balance office supply and demand also increased over the last year. For CBD markets, the estimated years to balance increased from 4.87 to 6.25. For suburban markets the estimated time required to balance supply and demand rose from 4.95 years to 5.96.

Due to limited construction activity, office inventories have remained relatively unchanged from last year. Furthermore, development in the pipeline has dropped significantly from last year. For both CBD and suburban markets surveyed, forecasted construction activity for the next three years dropped by over 50%.

### QUICK MARKET GLANCE

Through the third quarter of 2009 total private, service employment was down almost 4% from the end of 2007.

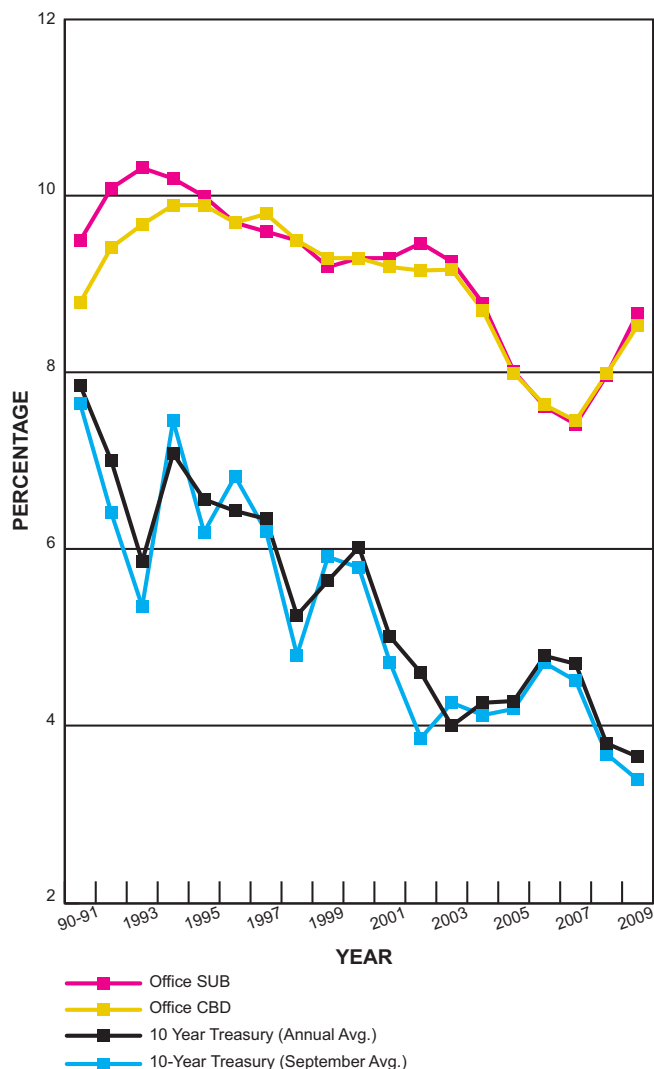
Having shed over 3.6 million jobs in industries which heavily utilize office space, the weakened state of the U.S. employment market has caused significant distress in many office markets across the country. This year, we observe that mounting unemployment and major company failures have created a complex national office market. In some areas, diverse tenant bases and manageable supplies have left office markets relatively unscathed. While in others, the loss of significant area employers or untenable supply and demand relationships have resulted in major strain on the office property type.

As witnessed last year, the recession has had a varying effect on office employers. Industries focused on real estate, financial services and lending activity have experienced the most dramatic declines. Conversely, many legal, tax and government related industries have experienced limited decreases. As a result, the performance of an area's office market is inextricably tied to its tenant makeup and diversity. According to survey respondents, cities such as Cleveland, Louisville and St. Paul have experienced relatively stable performance and minimal increases in vacancies thanks to diverse tenant base and lack of concentration in industries hardest hit by the recession. However, even in these markets the outlook is tenuous.

For other markets, the economic downturn has already resulted in a precipitous downturn in the office market. Survey participants in cities such as Orlando, Denver, Detroit, St. Louis and Indianapolis each have cited sharp increases in vacancies, along with negative absorptions for 2009. However, beyond the general detrimental impacts of the economic downturn, the failure of many major companies has caused disproportionate declines in areas where major employers have left the market.

In Richmond, VA, for instance, survey participants noted that, "Bankruptcy and liquidation in 2008 of two of the area's largest suburban office users, Circuit City and LandAmerica, have caused a spike in vacancy." Looking forward, cities heavily reliant on a particular company's presence in the office market will likely be at the locus of significant office market tumult. As noted by the IRR office in the Kansas City market, "The health of Sprint/Nextel is a critical factor in the office market. Should office space currently occupied by Sprint be returned to the market, suburban office vacancies could increase as much as 20%."

**FIGURE 15**  
**CAP RATE TRENDS—CBD AND SUBURBAN OFFICE**



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TABLE 16

## OFFICE MARKET CONDITIONS AND FORECASTS: Central Business District

MARKET AREA	INVENTORY (SQ. FT.)	VACANCY RATE (%)	VACANCY (SQ. FT.)	AVG ANNUAL NET ABSORP. 2006-2009 (SQ. FT.)	TOTAL UNDER CONST. 2010-2013 (SQ. FT.)	FORECAST AVG ANNUAL NET ABSORP. 2010-2012 (SQ. FT.)	TOTAL VALUE CHANGE 2006-2009 (%)	FORECAST TOTAL VALUE CHANGE 2010-2012 (%)	EST. YEARS TO BALANCE
Atlanta, GA	16,444,000	22.60	3,716,344	-138,500	0	66,333	-23.00	-15.00	14
Austin, TX	8,559,171	14.40	1,232,521	98,227	200,000	50,000	16.00	0.00	2
Baltimore, MD	22,298,000	15.50	3,456,190	-243,000	28,197	31,637	-15.00	3.00	10
Boise, ID	5,687,473	8.10	460,685	46,100	0	0	0	0	2
Boston, MA	60,000,000	17.00	10,200,000	500,000	1,000,000	500,000	-13.00	-10.00	6
Charlotte, NC	14,556,021	6.43	935,952	0	2,460,342	-783,333	6.00	-20.00	8
Chicago, IL	117,958,000	17.00	20,052,860	560,000	3,041,000	400,000	-10.00	10.00	5
Cincinnati, OH	10,600,000	16.00	1,696,000	-200,000	1,600,000	233,333	-3.00	-7.00	5
Cleveland, OH	26,400,000	18.00	4,752,000	300,000	500,000	50,000	-6.00	0.00	8
Columbia, SC	4,640,000	14.50	672,800	10,000	270,000	33,333	-13.00	0.00	8
Columbus, OH	10,200,000	17.00	1,734,000	200,000	75,000	-10,000	-8.00	5.00	10
Dallas, TX	35,745,390	21.20	7,578,023	16,097	0	-143,333	-15.00	-15.00	10
Dayton, OH	9,500,000	26.00	2,470,000	-50,000	0	-16,667	-28.00	-20.00	20
Denver, CO	24,334,000	15.10	3,674,434	269,500	967,000	86,333	0.00	5.00	6
Detroit, MI	10,700,000	25.00	2,675,000	-90,000	0	0	0.00	-7.00	5
Fort Worth, TX	11,053,973	10.70	1,182,775	-13,936	32,000	-60,333	-5.00	-15.00	8
Greenville, SC	3,325,000	18.00	598,500	40,000	250,000	41,667	-8.00	-2.00	8
Hartford, CT	8,498,000	19.40	1,648,612	-6,000	0	-16,667	-30.00	-10.00	7
Houston, TX	54,520,000	10.00	5,452,000	820,000	5,317,237	1,145,333	3.00	1.50	3
Indianapolis, IN	10,445,000	15.70	1,639,865	-2,000	0	-69,667	3.00	-5.00	5
Kansas City, MO/KS	14,000,000	21.00	2,940,000	-240,000	200,000	100,000	-20.00	-5.00	6
Las Vegas, NV	3,401,344	9.50	323,128	-11,402	0	7,000	1.00	0.00	3
Los Angeles, CA	69,359,704	10.12	7,022,105	-37,898	700,000	-34,667	-5.00	-15.00	4
Louisville, KY	10,700,000	12.00	1,284,000	330,000	300,000	100,000	3.20	2.00	2
Memphis, TN	13,435,988	8.70	1,168,931	121,068	0	0	0.00	0.00	15
Miami, FL	6,352,000	10.60	673,312	-63,000	753,000	168,333	45.00	-15.00	5
Minneapolis, MN	25,796,000	16.60	4,282,136	303,000	290,000	-59,000	-10.00	5.00	3
Naples/Ft. Myers, FL	4,708,528	12.47	587,029	-109,877	0	-88,332	-24.22	-10.00	3
Nashville, TN	7,498,041	19.60	1,469,616	69,949	0	0	0	0	0
New Jersey, Coastal	2,800,000	9.00	252,000	100,000	25,000	37,500	3.00	5.00	2
New Jersey, Northern	16,000,000	18.00	2,880,000	-60,000	240,000	0	-15.00	-5.00	5
New York, NY	443,000,000	10.80	47,844,000	-4,400,000	3,600,000	2,666,667	-16.00	-8.00	5
Oakland, CA	12,263,000	14.00	1,716,820	-17,200	71,000	-26,667	-25.00	-10.00	5
Orlando, FL	6,800,000	16.00	1,088,000	-100,000	776,000	109,667	0.00	-10.00	5
Philadelphia, PA	60,188,638	9.70	5,838,298	0	0	0	-1.00	-3.00	1
Phoenix, AZ	6,638,925	15.65	1,038,992	-60,000	850,000	0	-5.00	-10.00	5
Pittsburgh, PA	29,632,500	12.10	3,585,533	0	0	75,000	-7.00	0.00	1
Portland, OR	18,936,474	8.70	1,647,473	247,497	350,000	125,000	-15.00	-5.00	4
Providence, RI	3,100,000	11.00	341,000	65,000	305,000	35,000	0.00	-5.00	6
Richmond, VA	11,350,000	18.00	2,043,000	-100,000	210,000	166,667	-9.00	-5.00	3
Sacramento, CA	10,945,000	15.50	1,696,475	123,000	247,000	54,000	-12.00	-5.00	10
Salt Lake City, UT	6,700,000	11.00	737,000	50,000	459,000	100,000	-2.00	-5.00	7
San Antonio, TX	4,975,000	22.30	1,109,425	-24,889	0	-9,000	13.00	6.00	10
San Diego, CA	10,101,095	15.00	1,515,164	35,768	348,000	283,333	0.00	-9.00	4
San Francisco, CA	50,169,000	14.30	7,174,167	-391,000	722,000	138,000	-10.00	-10.00	4
San Jose, CA	8,383,000	23.90	2,003,537	86,100	130,000	33,000	-25.00	-5.00	5
Seattle, WA	57,782,701	11.33	6,548,406	543,160	3,359,046	33,333	1.00	-15.00	5
St. Louis, MO	11,350,000	23.00	2,610,500	-235,000	0	-33,333	-12.00	-5.00	7
Syracuse, NY	6,700,000	20.00	1,340,000	-131,000	115,000	57,500	-14.20	0.00	5
Tampa, FL	6,953,000	19.00	1,321,070	-57,000	140,000	122,667	-15.00	-15.00	8
Tulsa, OK	7,812,870	21.45	1,675,861	50,000	0	0	-15.00	0.00	10
Washington, DC	139,330,678	11.91	16,593,351	35,234	6,345,000	1,251,000	-20.00	-3.00	7
Wilmington, DE	12,700,000	15.00	1,905,000	-35,000	164,000	116,667	-10.00	-5.00	10
	<i>Total:</i> 1,565,327,514	<i>Simple Avg:</i> 15.37	<i>Total:</i> 210,083,889	<i>Total:</i> -1,797,002	<i>Total:</i> 36,439,822	<i>Total:</i> 7,067,305	<i>Average:</i> -7.85	<i>Average:</i> -5.15	<i>Average:</i> 6.25
		<i>Weighted Avg:</i> 13.42							

TABLE 17

## OFFICE MARKET CONDITIONS AND FORECASTS: Suburban Market Area

MARKET AREA	INVENTORY (SQ. FT.)	VACANCY RATE (%)	VACANCY (SQ. FT.)	AVG ANNUAL NET ABSORP. 2006-2009 (SQ. FT.)	TOTAL UNDER CONST. 2010-2013 (SQ. FT.)	FORECAST AVG ANNUAL NET ABSORP. 2010-2012 (SQ. FT.)	TOTAL VALUE CHANGE 2006-2009 (%)	FORECAST TOTAL VALUE CHANGE 2010-2012 (%)	EST. YEARS TO BALANCE
Atlanta, GA	123,116,000	16.76	20,635,688	548,250	4,920,000	781,667	-20.00	-10.00	12
Austin, TX	32,850,373	22.00	7,227,082	302,976	1,100,000	350,000	28.00	0.00	3
Baltimore, MD	106,731,000	12.41	13,241,745	1,746,000	7,990,529	1,972,580	-18.00	5.00	3
Boise, ID	15,695,297	17.58	2,758,724	200,500	315,000		7.90		3
Boston, MA	113,300,000	21.65	24,525,000	505,000	200,000	333,333	-13.00	-10.00	7
Charlotte, NC	30,155,331	19.07	5,750,584	1,263,497	391,141	-125,000	-6.00	-20.00	5
Chicago, IL	114,300,000	20.73	23,693,250	394,000	2,037,400	300,000	-15.00	10.00	7
Cincinnati, OH	21,900,000	20.69	4,531,875	76,500	1,500,000	83,333	-3.00	-7.00	4
Cleveland, OH	55,250,000	12.48	6,896,500	550,000	250,000	83,333	-5.00	-4.00	5
Columbia, SC	4,880,000	23.00	1,122,400	45,000	200,000	33,333	-8.00	5.00	9
Columbus, OH	23,550,000	19.89	4,684,500	70,000	900,000	90,000	-8.00	5.00	7
Dallas, TX	211,535,622	17.89	37,854,243	676,644	3,655,000	1,100,667	-15.00	-15.00	10
Dayton, OH	30,200,000	10.88	3,286,500	75,000	500,000	116,667	-14.00	-5.00	10
Denver, CO	61,732,000	21.33	13,169,344	87,250	1,555,000	421,000	-16.00	0.00	8
Detroit, MI	122,800,000	23.89	29,335,000	-1,036,000	514,000	136,667	2.00	-7.00	7
Fort Worth, TX	55,955,105	11.56	6,467,805	264,143	308,000	45,333	-5.00	-15.00	8
Greenville, SC	7,575,000	17.50	1,325,625	70,000	175,000	41,667	-8.00	2.00	10
Hartford, CT	23,691,000	29.45	6,977,000	-251,000	90,000	-33,333	-20.00	-10.00	6
Houston, TX	196,193,000	14.41	28,264,951	3,750,000	5,611,857	466,667	3.00	1.50	3
Indianapolis, IN	20,993,000	20.93	4,394,777	210,000	710,000	148,000	4.00	1.00	4
Kansas City, MO/KS	31,800,000	17.83	5,669,000	-866,000	800,000	166,667	-15.00	-5.00	6
Las Vegas, NV	45,772,657	18.48	8,458,901	367,566	4,931,958	753,000	0.00	0.00	5
Long Island, NY	46,800,000	14.00	6,552,000	-600,000	220,000	0	-18.00	-5.00	5
Los Angeles, CA	320,821,471	11.30	36,268,520	-3,055,390	3,219,000	-190,000	-5.00	-15.00	4
Louisville, KY	13,610,000	18.15	2,470,100	137,000	1,200,000	166,667	3.00	1.00	4
Memphis, TN	34,528,162	13.48	4,653,702	199,198	151,782	116,667	-2.00	0.00	5
Miami, FL	34,727,000	15.90	5,520,939	-386,000	768,000	218,000	45.00	-15.00	5
Minneapolis, MN	47,677,000	18.94	9,031,463	282,750	872,000	119,333	-10.00	5.00	4
Naples/Ft. Myers, FL	24,675,894	17.36	4,284,948	-13,009	195,860	25,072	-20.56	-10.00	3
Nashville, TN	23,533,992	13.03	3,065,339	459,316					
New Jersey, Coastal	24,940,000	12.33	3,075,550	-205,000	65,000	362,500	5.00	5.00	4
New Jersey, Northern	147,000,000	21.00	30,870,000	-350,000	230,000	0	-24.00	-8.00	7
Oakland, CA	48,910,000	18.89	9,241,048	-218,900	992,000	440,333	-25.00	-10.00	5
Orange County, CA	144,293,675	14.80	21,355,464	-1,256,750	1,478,183	694,000	-30.00	-15.00	
Orlando, FL	28,274,000	15.70	4,439,205	78,500	522,000	301,333	-7.00	-10.00	3
Philadelphia, PA	179,230,289	13.99	25,081,849	-305,842			-9.00	-10.00	5
Phoenix, AZ	85,611,563	27.41	23,470,154	-1,127,000	2,000,000	0	-5.00	-10.00	5
Pittsburgh, PA	52,386,989	11.09	5,810,754		850,000	150,000	-8.00	0.00	1
Portland, OR	32,233,419	16.26	5,241,559	381,150	100,000	375,000	-27.00	-10.00	6
Providence, RI	12,850,000	15.32	1,968,000	163,000	210,000	50,000	0.00	-5.00	6
Richmond, VA	45,450,000	20.00	9,091,000	-330,000	600,000	400,000	-9.00	-5.00	5
Sacramento, CA	41,863,000	19.24	8,053,625	526,500	1,141,000	239,000	-17.00	-10.00	10
Salt Lake City, UT	23,800,000	12.39	2,950,000	855,000	2,285,000	333,333	-2.00	-5.00	7
San Antonio, TX	23,259,000	17.00	3,954,030	535,100	567,000	252,333	13.00	6.00	10
San Diego, CA	66,855,186	18.27	12,216,895	1,140,000	2,798,000	500,000	0.00	-9.00	8
San Francisco, CA	89,607,000	14.64	13,117,915	209,000	1,050,000	204,000	-10.00	-10.00	4
San Jose, CA	63,750,000	18.04	11,502,976	-745,700	1,655,000	202,667	-25.00	-5.00	5
Sarasota, FL	24,820,462	12.05	2,989,627	-88,246	182,800	257,376	-32.38	-7.00	3
Seattle, WA	80,128,814	11.72	9,387,746	1,169,354	634,120	316,667	-1.00	-10.00	5
St. Louis, MO	34,420,000	14.99	5,159,925	131,000	1,700,000	333,333	-12.00	-5.00	5
Syracuse, NY	6,000,000	12.50	750,000	-19,000	32,000	20,000	-14.20	0.00	3
Tampa, FL	34,026,000	18.13	6,168,147	-280,500	1,001,000	234,000	-12.00	-20.00	10
Tulsa, OK	12,618,092	19.05	2,404,332	414,000	150,000	150,000	0.00	0.00	10
Washington, DC	308,732,857	14.22	43,891,274	481,071	7,372,000	1,396,667	-30.00	-5.00	10
Wilmington, DE	17,300,000	11.65	2,016,000	30,000	945,000	233,333	-2.00	0.00	7
<i>Total:</i>	<i>3,624,709,250</i>	<i>Simple Avg: 16.97</i>	<i>Total: 596,324,580</i>	<i>Total: 7,259,928</i>	<i>Total: 73,841,630</i>	<i>Total: 15,167,195</i>	<i>Average: -8.62</i>	<i>Average: -5.20</i>	<i>Average: 5.96</i>
		<i>Weighted Avg: 16.45</i>							

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## MEDICAL OFFICE BUILDINGS

The medical office building (MOB) market continues to be the strongest sector of the real estate spectrum. The primary reason for the stability of the MOB market is strong employment growth in the healthcare industry. According to the Bureau of Labor Statistics, healthcare job growth was 2.7% in 2008 and 2.9% in 2007, compared to -2.2% and 0.8%, respectively for total nonfarm jobs. Employment in health care continued to increase in September (19,000), with the largest gain occurring in ambulatory health care services (15,000). Health care has added 559,000 jobs since the beginning of the recession, although the average monthly job gain thus far in 2009 (22,000) is down from the average monthly gain during 2008 (30,000). Transactional activity in the MOB market has fallen significantly since 2007. Real Capital Analytics, Inc. reports MOB second quarter 2009 sales at \$190 million compared to \$1.6 billion in the first quarter of 2007. Average marketing time has nearly doubled over the past year from 4.64 months to 8.00 months, according to Korpacz. There have been several major REIT MOB transactions in the past year, with the most recent being the sale-leaseback from the Greenville Hospital

System to Grubb & Ellis Healthcare REIT. This 16-property portfolio of on-campus and off-campus medical office buildings sold for \$161.6 million in the third quarter of 2009. The sale-leaseback activity among hospitals should continue to increase, reflecting the continued monetization of non-core real estate by hospital systems.

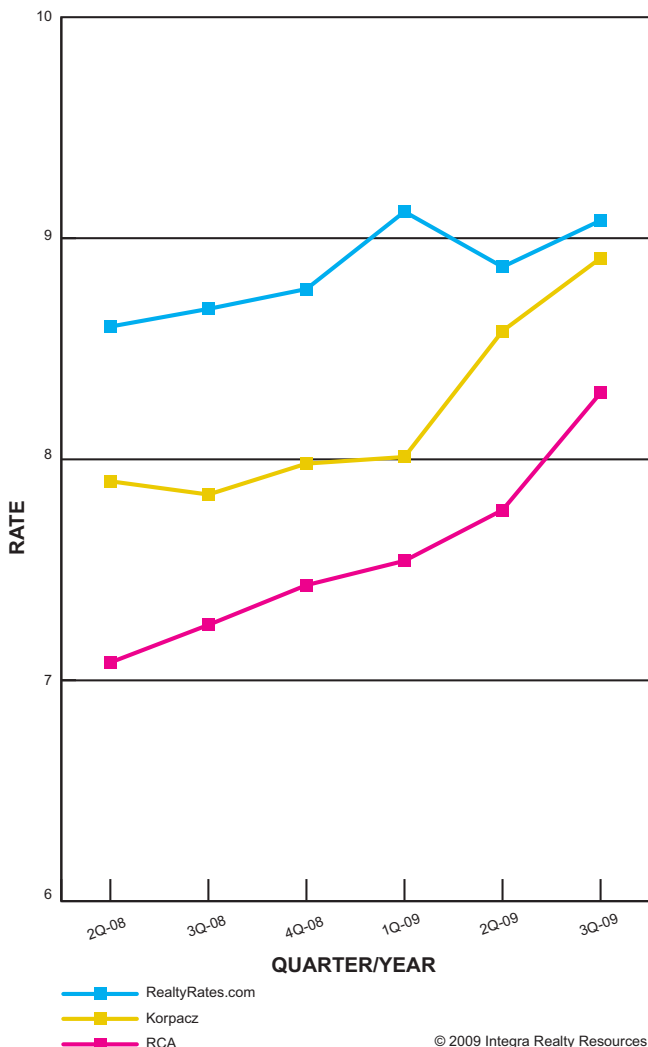
The overall capitalization rate table illustrates the increasing trend in MOB cap rates. As indicated by the three survey sources, current MOB cap rates range from 8.30% to 9.09%, compared to 7.25% to 8.68% one year ago. This increasing investor criterion is expected to continue due to the limited capital sources and increased marketing times.

Although no one knows what the final version of the current healthcare reform will look like, any reform should be positive for the MOB market. Increasing coverage of the uninsured and development of electronic medical records will lead to increased demand for medical office space. Decreasing reimbursements to hospitals will result in continued pressure to migrate out-patient services and back office functions from hospital areas to off-campus locations.

Overall, the medical office market should continue to lead the real estate investment market and be favored with lenders and investors due to healthcare job growth, increased demand for medical office space through healthcare reform and monetization of hospital real estate assets.

Integra Realty Resources has completed over 1,100 medical office appraisals over the past two years through its relationships with REITS, hospital systems, developers and lenders. Integra Realty Resources is also involved with Fair Market Value analysis for "Stark Law" compliance.

**FIGURE 18**  
**CAP RATE TRENDS—MEDICAL OFFICE**



## RETAIL BY THE NUMBERS

- Retail cap rates are up across the board. Regional mall cap rates have increased 82 basis points to 8.22%; Community mall cap rates have increased 72 basis points to 8.43%; and Neighborhood strip cap rates have increased 87 basis points to 8.76%.
- Retail vacancy increased from 7.56% last year to 8.69% at the end of 2009. The market fundamentals indicate that vacancy rates are likely to continue increasing in 2010.

## THE FUTURE OF RETAIL

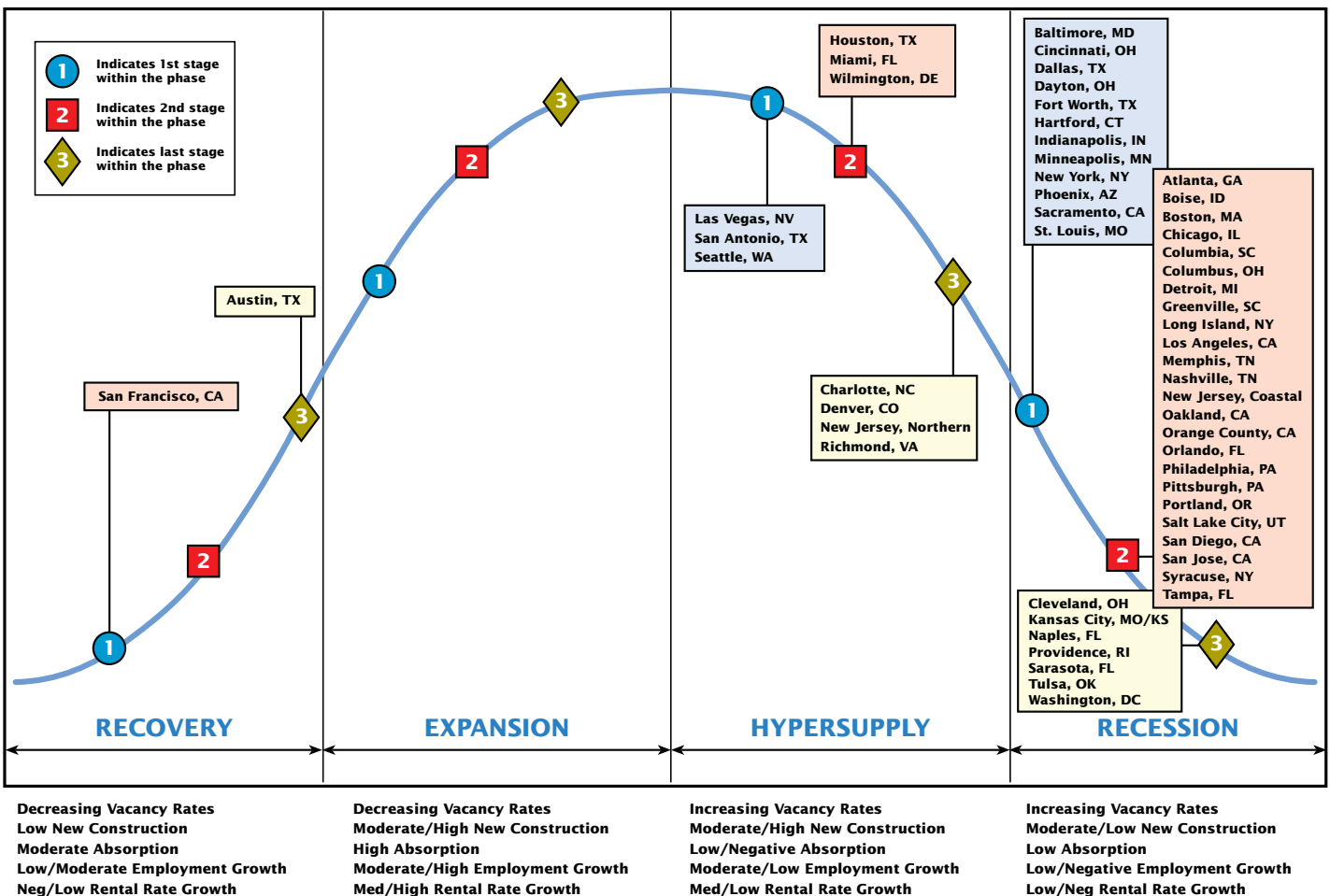
By: *Integra Realty Resources San Francisco*  
*Ralph S. Epstein, CSM*  
*Senior Director, Consulting Services*

The "Great Recession" has accelerated a wave of retail failures, including such notable names as Linens 'n Things, Circuit City, KB Toys and Mervyns. Thousands of local, regional and

national retailers have also shuttered their doors. Others such as Toys R Us, Borders Books and Music, and Barnes & Noble are adjusting their merchandise offerings, store counts and business models. Gap recently announced it will close another 10% of its U.S. stores over the next five years and focus its expansion plans on its on-line and international divisions. These severe actions are required to compensate for the chunks of core businesses siphoned off over the last ten to fifteen years by Wal-Mart, Target, Home Depot, Costco and other off-price, discount and category killer retailers. On-line retailers and shopping sites that are growing at lightning speed contributed to the problem along with the plunge in consumer confidence in the wake of the housing, financial and credit crises of the current recession. As a result of these trends, vacancy rates will continue to rise in shopping centers, strips and one-off retail buildings across the country for all but the best of Class "A" properties and in-fill urban streets for the foreseeable future.

While the recession may have pushed some retailers over the edge and others to the brink, it was overbuilding and store expansion over the past 25 years that were finally exposed during the current economic downturn. Many have debated over the death of the consumer. She's not dead, just smart. Even

**FIGURE 19**  
**RETAIL MARKET CYCLE**



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TABLE 20

**RETAIL MARKET CONDITIONS AND FORECASTS:** Central Business Districts and Suburban Market Areas

MARKET AREA	INVENTORY (SQ. FT.)	VACANCY RATE (%)	VACANCY (SQ. FT.)	MALL VACANCY RATE (%)	AVG ANNUAL NET ABSORP. 2006-2009 (SQ. FT.)	TOTAL UNDER CONST. 2010-2013 (SQ. FT.)	FORECAST AVG ANNUAL NET ABSORP. 2010-2012 (SQ. FT.)	TOTAL VALUE CHANGE 2006-2009 (%)	FORECAST TOTAL VALUE CHANGE 2010-2012 (%)	EST. YEARS TO BALANCE	GAFO SALES PER HOUSEHOLD <sup>1</sup> (\$)
Atlanta, GA	79,279,000	12.87	10,200,782	10.00	-301,000	1,995,000	52,667	-22.00	-20.00	10	19,200
Austin, TX	39,857,895	9.20	3,666,926	9.50	985,710	1,750,000	441,667	16.00	0.00	2	18,720
Baltimore, MD	122,770,000	6.40	7,857,280	10.00	1,270,000	1,514,859	916,667	-22.00	3.00	0	16,580
Boise, ID	18,872,552	12.90	2,433,954		451,600	137,000		8.30			15,510
Boston, MA	169,500,000	9.10	15,429,000	6.00	1,700,000	950,000	-233,333	-15.00	-5.00	7	18,770
Charlotte, NC	34,172,632	6.77	2,311,835		1,175,893	1,011,989	-183,333	-4.00	-15.00	1	17,470
Chicago, IL	99,798,000	10.94	10,913,823	10.00	256,500	3,010,000	133,333	-20.00	10.00	5	17,780
Cincinnati, OH	101,500,000	10.10	10,252,000	13.00	940,000	975,000	25,000	-5.50	-5.00	4	16,480
Cleveland, OH	24,900,000	13.51	3,363,200	9.00	-237,000	500,000	-100,000	-7.00	-1.00	8	18,230
Columbia, SC	17,825,000	12.00	2,139,000	6.00	200,000	900,000	141,667	-7.00	2.00	7	14,230
Columbus, OH	50,850,000	15.00	7,627,500	25.00	800,000	800,000	233,333	-15.00	0.00	4	20,200
Dallas, TX	211,569,032	10.01	21,175,023	10.93	705,323	1,858,000	127,000	-15.00	-15.00	6	18,480
Dayton, OH	16,650,000	17.30	2,880,750	16.50	-190,000	75,000	-41,667	-15.00	-20.00	10	15,600
Denver, CO	87,625,528	8.59	7,530,458	5.80	1,444,942	1,793,498	-64,667	-10.00	5.00	3	18,720
Detroit, MI	50,100,000	17.35	8,692,000	6.50	-57,000	802,000	148,333	5.00	-5.00	5	14,730
Fort Worth, TX	125,131,290	8.61	10,777,560	4.17	464,828	635,000	-96,000	-6.00	-15.00	6	18,480
Greenville, SC	27,800,000	12.20	3,391,600	3.50	175,000	1,200,000	183,333	-5.00	2.00	6	14,720
Hartford, CT	14,474,000	11.60	1,678,984	8.00	126,000	225,000	-66,667	-15.00	-10.00	4	17,160
Houston, TX	166,205,000	15.82	26,294,990	5.00	2,640,300	3,430,000	226,667	-3.00	4.50		15,430
Indianapolis, IN	102,610,483	9.23	9,472,804	6.90	1,656,414	4,634,000	1,060,000	-11.00	-5.00	7	17,720
Kansas City, MO/KS	43,900,000	13.97	6,134,000	25.00	-290,000	800,000	-133,333	-35.00	-10.00	8	16,010
Las Vegas, NV	51,295,026	9.75	5,003,592	5.00	1,706,135	5,860,248	1,208,333	0.00	-2.00	6	18,770
Long Island, NY	30,000,000	6.50	1,950,000	8.00	-300,000	2,400,000	166,667	-14.00	-5.00	3	17,130
Los Angeles, CA	362,218,243	4.87	17,640,976	5.00	89,810	2,737,000	160,000	-10.00	-5.00	1	18,070
Louisville, KY	16,790,000	13.64	2,290,000	8.00	132,000	400,000	200,000	4.00	1.00	3	14,170
Memphis, TN	66,545,081	10.42	6,931,873	3.80	317,681	1,329,055	250,000	17.50	5.00	3	16,450
Miami, FL	120,983,491	5.06	6,124,810	2.30	387,290	1,600,000	450,000	-25.00	1.00	3	17,280
Minneapolis, MN	62,258,435	5.83	3,626,681	5.60	-140,319	1,655,000	180,333	-10.00	-5.00	3	20,210
Naples/Ft. Myers, FL	67,247,053	9.43	6,340,377		618,748	767,953	1,306,112	-26.05	-10.00	3	15,760
Nashville, TN	25,170,000	7.16	1,802,300	9.50	910,000	850,000	150,000	-35.00	-15.00	3	17,250
New Jersey, Coastal	44,050,000	7.24	3,189,400	8.00	2,075,000	1,750,000	400,000	8.00	-7.00	3	17,850
New Jersey, Northern	54,500,000	7.20	3,924,000	6.00	600,000	1,650,000	0	-15.00	-8.00	2	17,130
New York, NY	13,300,000	7.00	931,000	6.00	-100,000	60,000	50,000	-19.00	-6.00	2	17,130
Oakland, CA	129,458,000	5.41	7,005,730	10.00	451,200	1,307,000	286,333	-25.00	-5.00	3	18,300
Orange County, CA	123,778,542	5.70	7,055,377	3.30	-319,539	1,133,000	263,000	-25.00	-10.00		18,070
Orlando, FL	36,380,000	10.69	3,888,360	7.50	-32,500	580,900	318,000	-7.50	-5.00	3	19,450
Philadelphia, PA	236,293,442	7.45	17,608,983	5.00				-6.00	-11.00	4	15,650
Phoenix, AZ	132,289,171	12.53	16,580,374	15.00	-425,000	6,000,000	833,333	-5.00	-10.00	5	15,470
Pittsburgh, PA	81,850,000	8.14	6,659,750	15.00		2,000,000		-7.00	-2.00	2	16,190
Portland, OR	43,809,762	7.13	3,123,555	7.00	377,901	616,080	316,667	-12.50	-5.00	2	16,760
Providence, RI	19,500,000	17.00	3,315,000	15.00	95,000	195,000	40,000	-2.00	-5.00	7	15,470
Richmond, VA	67,700,000	7.80	5,278,800	10.00	-380,000	2,700,000	766,667	-17.00	2.00	2	14,980
Sacramento, CA	38,880,000	12.04	4,681,500		-164,300	902,000	113,667	-30.00	-10.00	10	13,890
Salt Lake City, UT	36,750,000	8.98	3,301,550	5.00	688,000	1,400,000	300,000	-5.00	-5.00	5	21,010
San Antonio, TX	49,048,197	11.70	5,738,639	6.75	643,540	1,486,560	-227,648	13.00	0.00	10	15,790
San Diego, CA	91,107,903	5.31	4,837,810	6.90	870,000	1,080,000	200,000	4.00	-10.00	0	17,550
San Francisco, CA	89,490,000	3.08	2,752,848	7.00	679,000	506,000	10,333	-25.00	-10.00	2	18,300
San Jose, CA	78,516,000	5.03	3,949,352	10.00	305,700	1,110,000	233,333	-25.00	-5.00	3	26,670
Sarasota, FL	47,693,539	6.32	3,015,611		276,985	156,215	60,781	-15.96	-10.00	3	13,330
Seattle, WA	46,337,734	8.90	4,121,923	4.11	2,238,874	4,133,601	170,000	-17.00	-10.00	4	16,450
St. Louis, MO	28,400,000	13.00	3,692,000	9.00	-62,500	840,000	-191,667	-15.00	-10.00	10	17,970
Syracuse, NY	10,027,437	14.94	1,498,087	15.00		1,075,000	83,333	0.30	3.00	2	18,470
Tampa, FL	137,800,000	9.01	12,418,000		1,075,894	794,000	357,667	-22.00	-15.00	10	13,700
Tulsa, OK	17,318,100	14.42	2,497,744	10.00		500,000	100,000	-8.00	3.00	10	14,250
Washington, DC	163,259,763	6.20	10,122,105	8.00	2,078,121	3,208,000	511,333	-25.00	3.00	5	17,060
Wilmington, DE	27,500,000	8.50	2,337,500	3.50	80,000	475,000	150,000	-8.00	0.00	6	15,650
<i>Total:</i>	<i>Simple Avg</i>	<i>Total:</i>	<i>Average:</i>	<i>Total:</i>	<i>Total:</i>	<i>Total:</i>	<i>Total:</i>	<i>Average:</i>	<i>Average:</i>	<i>Average:</i>	<i>National Avg:</i>
	4,252,935,331	9.77	369,459,076	8.62	28,690,231	82,253,958	11,987,245	-10.95	-5.14	4.64	17,104
		<i>Weighted Avg:</i>									
		8.69									

Note 1: GAFO Sales per Household provided by Claritas Data Services.

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the consumer with cash to spend is choosing savings and prudence. Stores once visited only infrequently for their lack of product depth, merchandise focus and value have been forever removed from the shoppers radar screen while products like the iPhone from Apple, powered by technological advances and iconic style, have altered how the retail marketplace is defined and functions.

Geographical boundaries no longer control where consumers shop. Virtual stores are only as far away from a purchase as the personal computer or smart phone. Internet book sales have increased seven percent in the past two years, but the biggest increase has been in clothing, accessories, and shoes which increased from 20% to 36%. In the past, these three major merchandising categories have occupied millions of square feet of leasable area in shopping centers and department stores across the country. Today's consumer knows the best place to find value. Be it from "bricks and mortar," "point and click," Wal-Mart, Amazon, E-Bay, Apple or Tiffany, it's the consumers changing spending habits and lifestyle that will dictate when

and where a sales transaction takes place. More often than before, that point of sale is not the suburban mall or strip store.

This new marketplace is not designed to fit into retail categories or traditional retailing footprints or boxes, and in fact only the "best of breed" will eventually occupy the bricks and mortar, leaving vacant space of all genders in its wake. Most moderate priced department stores are now consolidated under the Macys flag. Nordstrom is best of breed in the better department store category, and along with other specialty department stores such as Neiman Marcus and Saks Fifth Avenue anchor many of the timeless Class A properties.

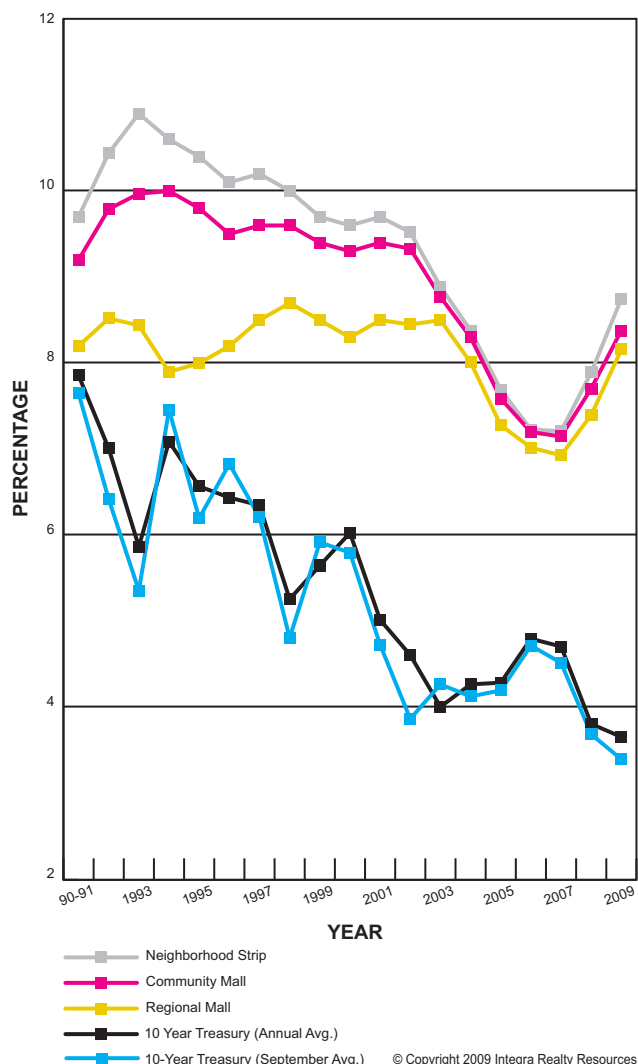
As a result of urban sprawl, retail over-expansion, consolidation of brands, lifestyle changes and the continued erosion of market share from bricks and mortar retail, there is simply too much unoccupied anchor and shop space in too many geographical locations across the county with too few legitimate retailers to occupy it. These are the areas where the current housing crisis has taken its worst toll. Market demand is the reason why those well located Class A properties and urban-infill streets have endured the stress test of this historic economic shakeout. It's what people want.

Market demand has driven the redevelopment and revitalization of many downtowns across the country and has begun to change the core suburban areas themselves into a variety of consolidated urban-like places. Higher density suburban villages, with many urban-like amenities, are proving to be a successful model. This is found at Broadway Plaza in Walnut Creek, California (26 miles from downtown San Francisco), which has more stable home values nearby, while at the same time providing a lifestyle more attuned to San Francisco's renowned Union Square.

This is in sharp contrast to the suburban fringe, where the highest and best use for vacant or nearly vacant shopping centers and strips is unknown and prospects are bleak. It's this evolving "reverse" trend reflecting the economic reality of each market independently, which will dictate how and when excess space will be finally absorbed and by whom.

There will be an array of temporary uses in between, some good and others not so good, such as pedestrian parks, public markets and community buildings. In many cases there will be no uses at all, with only the bulldozer as the solution. The majority of the space not absorbed by traditional uses will eventually be woven together with inventive new concepts crafted through the entrepreneurial eye of people like the late Donald Fisher, who opened the first Gap store in 1969, or Steve Jobs, the Apple cofounder, who returned to his struggling company in 1996 to create one of today's most important retailers. This retail of the future along with today's "best of breed", will prosper without geographic boundaries, be "right sized" to accommodate the demographic realities of the modern consumer, and will thrive from sales driven by the market, wherever it may be.

**FIGURE 21**  
**CAP RATE TRENDS—RETAIL**



# APARTMENT

## APARTMENTS BY THE NUMBERS

- The urban multifamily capitalization rate average rose from 7.04% to 7.82%.
- Similarly, the suburban multifamily capitalization rate rose; jumping 85 basis points to 7.80%.
- Despite moderate rate increases, suburban and urban multifamily properties hold the number one and two ranks in our rates survey results, respectively.
- The multifamily market appears to have stabilized somewhat from last year, though survey respondents still expect capitalization and discount rates to increase over the next year. 76.5% indicated that cap rate increases are expected for urban multifamily properties, while 77.4% projected increases for suburban properties.

• The average suburban multifamily discount rate average is 9.44%, a moderate increase from last year's 8.61%. Urban multifamily discount rates increased by a similar amount, from 8.65% to 9.39%. However, this is still below levels recorded in 2003 and the prior decade.

Along with declining pricing metrics, apartment vacancy averages increased from 6.32% to 7.63%. At 14.1%, Providence, RI posted the highest apartment vacancy, while San Francisco, CA reported a vacancy of 3.59%, the lowest of all surveyed markets. The estimated years required to balance current supply and demand rose from 1.55 to 2.74.

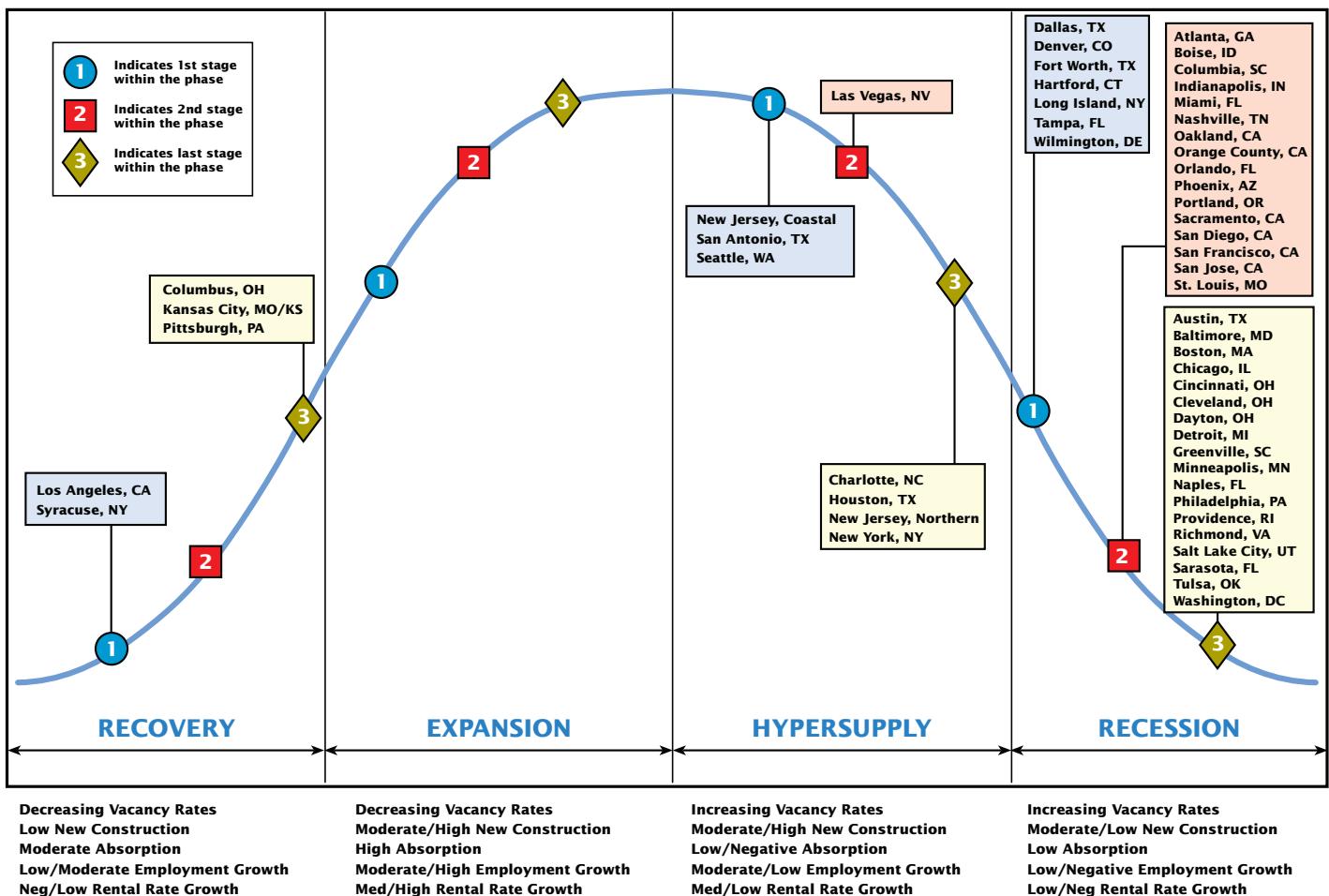
Construction forecasts, which were down 17.7% in 2008, are down an additional 18.6% this year. With construction and absorption expectations down, we anticipate that multifamily development will be limited, particularly in non-urban settings.

## QUICK MARKET GLANCE

The effects of the liquidity crisis have been nothing short of catastrophic to the commercial real estate markets. Combined with the simultaneous economic recession, commercial real

FIGURE 22

## APARTMENT MARKET CYCLE



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TABLE 23

**APARTMENT MARKET CONDITIONS AND FORECASTS:** Central Business Districts and Suburban Market Areas

MARKET AREA	INVENTORY (UNITS)	VACANCY RATE (%)	VACANCY (UNITS)	AVG ANNUAL NET ABSORP. 2006-2009 (UNITS)	TOTAL UNDER CONST. 2010-2013 (UNITS)	FORECAST AVG ANNUAL NET ABSORP. 2010-2012 (UNITS)	TOTAL VALUE CHANGE 2006-2009 (%)	FORECAST TOTAL VALUE CHANGE 2010-2012 (%)	EST. YEARS TO BALANCE
Atlanta, GA	349,183	11.19	39,086	115	10,387	3,986	-20.00	-15.00	5
Austin, TX	155,552	11.00	17,111	1,570	6,500	2,333	7.10	2.00	2
Baltimore, MD	135,197	6.40	8,653	1,046	4,275	1,006	-5.00	5.00	0
Boise, ID	13,301	9.50	1,264		617				2
Boston, MA	196,000	6.50	12,740	675	3,500	1,633	-10.00	0.00	0
Charlotte, NC	83,931	11.64	9,771	872	6,063	-900	-15.00	-5.00	7
Chicago, IL	445,590	6.67	29,709	-478	5,980	1,825	-7.00	2.00	2
Cincinnati, OH	104,550	7.58	7,925	625	950	33	5.50	2.00	1
Cleveland, OH	111,446	6.69	7,456	387	1,022	49	3.00	2.00	2
Columbia, SC	31,500	12.80	4,032	900	1,750	250	-5.00	2.00	8
Columbus, OH	121,904	8.46	10,313	-73	2,748	387	4.50	3.00	0
Dallas, TX	393,923	9.29	36,599	864	16,105	4,077	-12.00	-5.00	3
Dayton, OH	33,230	8.25	2,741	310	400	200	0.00	-10.00	5
Denver, CO	253,347	9.23	23,384	456	8,567	1,709	-12.00	3.00	3
Detroit, MI	233,700	8.16	19,069	676	3,675	656	6.00	6.00	1
Fort Worth, TX	153,179	10.42	15,968	363	4,407	1,497	-7.00	-5.00	4
Greenville, SC	30,900	12.50	3,863	600	1,350	292	-5.00	4.00	5
Hartford, CT	35,745	5.80	2,073	294	300	-33	-30.00	-10.00	3
Houston, TX	576,300	10.84	62,453	3,873	13,800	4,767	8.00	4.50	5
Indianapolis, IN	108,145	8.16	8,826	1,240	4,250	1,000	-9.00	-20.00	5
Kansas City, MO/KS	119,800	8.26	9,896	-1,260	3,200	667	-20.00	5.00	3
Las Vegas, NV	112,207	9.81	11,003	550	8,750	2,500	-10.00	-5.00	5
Long Island, NY	98,000,000	5.60	5,488,000	-800	550	200	-10.00	0.00	3
Los Angeles, CA	750,479	5.38	40,412	-972	10,924	3,030	5.00	-5.00	2
Louisville, KY	48,924	9.31	4,555	1,400	4,300	967	9.70	2.00	1
Memphis, TN	57,092	10.30	5,883	-1,626	2,048	267	-6.00	-5.00	4
Miami, FL	110,666	5.77	6,386	-7,617	573	904	3.83	1.74	3
Minneapolis, MN	154,048	4.81	7,402	549	3,968	418	-2.00	0.00	0
Naples/Ft. Myers, FL	18,296	13.37	2,446				-35.00	-5.00	4
Nashville, TN	88,517	9.62	8,513	304	3,572	878	-14.00	-20.00	2
New Jersey, Coastal	28,200	5.45	1,537	-235	350	100	10.00	2.00	2
New Jersey, Northern	972,000	5.80	56,376	2,000	400	0	-11.00	2.00	2
New York, NY	155,000	4.80	7,440	-300	7,000	333	-9.00	2.00	0
Oakland, CA	146,690	5.59	8,206	200	5,827	1,902	-30.00	-5.00	1
Orange County, CA	204,570	6.70	13,706	45	5,501	1,763	-25.00	5.00	
Orlando, FL	129,167	11.90	15,376	-1,323	5,715	1,914	-2.75	-6.00	2
Philadelphia, PA	199,510	6.16	12,290	-555			3.00	5.00	0
Phoenix, AZ	253,971	12.97	32,934	1,410	11,000	500	-10.00	-10.00	5
Pittsburgh, PA	84,671	5.81	4,917	224	2,840	222	-2.00	2.00	0
Portland, OR	99,291	5.85	5,806	511	3,420	750	-12.50	-10.00	
Providence, RI	48,500	14.11	6,845	453	325	58	-9.00	-20.00	7
Richmond, VA	66,490	8.86	5,891	300	2,400	1,000	1.50	2.00	4
Sacramento, CA	100,205	6.84	6,858	-134	3,262	895	-5.00	-5.00	0
Salt Lake City, UT	79,750	7.15	5,704	6,575	5,625	667	-3.00	-10.00	4
San Antonio, TX	143,073	10.00	14,307	1,000	6,222	2,274	14.50	6.00	5
San Diego, CA	179,050	5.10	9,132	550	5,520	1,250	-27.00	0.00	0
San Francisco, CA	136,625	3.59	4,907	-330	4,021	827	-30.00	5.00	0
San Jose, CA	111,075	4.84	5,379	275	6,059	1,398	-30.00	-15.00	2
Sarasota, FL	15,387	11.00	1,693				-35.00	-10.00	3
Seattle, WA	358,252	8.51	30,472	-2,183	19,500	667	-10.00	-10.00	4
St. Louis, MO	119,400	8.75	10,448	0	1,836	302	-10.00	-5.00	5
Syracuse, NY	17,081	3.94	673	226	200		1.00	1.00	1
Tampa, FL	150,280	9.76	14,662	-1,127	4,374	1,418	-6.50	-5.00	3
Tulsa, OK		8.00	5,320		2,300	600	-10.00	0.00	3
Washington, DC	774,716	5.01	38,810	6,894	23,609	360	-15.00	3.00	2
<i>Total:</i>	<i>9,764,106</i>	<i>Simple Avg</i> <b>8.18</b>	<i>Total:</i> <b>744,704</b>	<i>Total:</i> <b>19,319</b>	<i>Total:</i> <b>262,017</b>	<i>Total:</i> <b>53,797</b>	<i>Average:</i> <b>-7.85</b>	<i>Average:</i> <b>-2.63</b>	<i>Average:</i> <b>2.74</b>
		<i>Weighted Avg:</i> <b>7.63</b>							

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estate is experiencing one of its most challenging periods to date. While there is still much uncertainty in the near-term, a few indications of easing credit conditions are becoming evident; particularly in relation to apartment properties. Apartment market fundamentals declined just as much as other property types in 2009.

According to Real Capital Analytics, sales of significant apartment properties totaled \$3.6 billion in the third quarter of 2009. While this is still a fraction of the transaction volume experienced prior to the credit crunch, this volume represents a 12% increase from the previous quarter. It is only the second such quarterly increase since the beginning of the credit crisis over two years ago. Furthermore, lending terms for apartment properties have improved slightly.

Based on information tracked by the American Council of Life Insurers, we note that the average loan-to-value (LTV) ratio for apartment mortgage commitments by life insurance companies in the second quarter of 2009 was 72%, a

significant jump from the 61% LTV noted in the previous quarter. Though it bears mentioning that this observation is representative of a relatively small portion of the lending market, the easing trend is nonetheless encouraging.

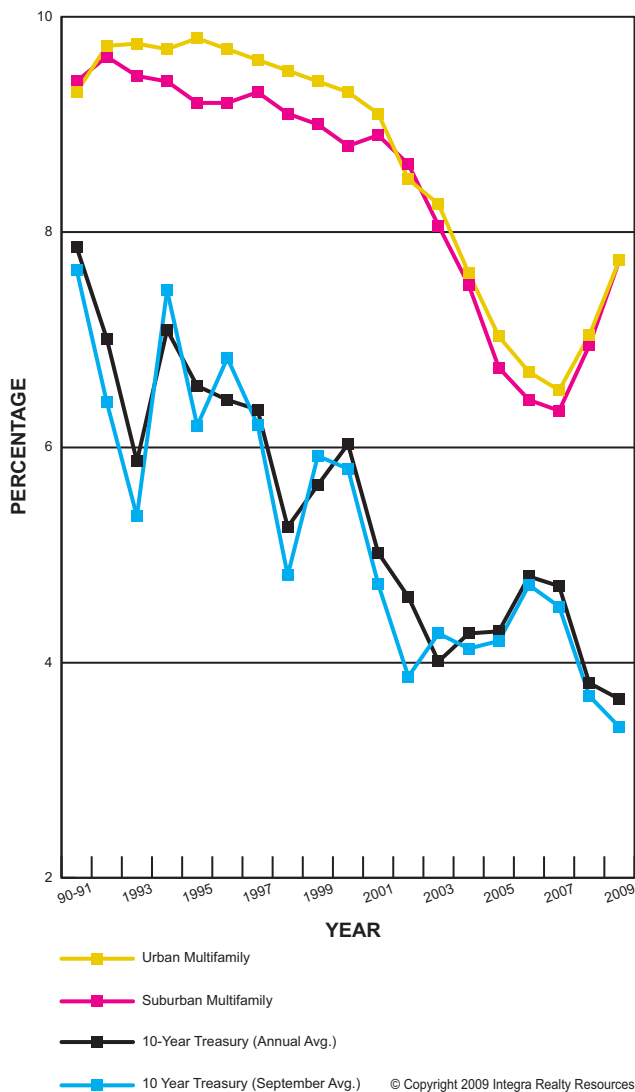
Still, apartment fundamentals declined significantly in 2009. In the second quarter national apartment vacancy reported by REIS reached 7.6%, the highest such rate in the 22 year history of REIS's tracking of property fundamentals. Limited by the highest unemployment rate in 26 years at over 10%, along with the recent supply increase due to former condominium conversions, apartment markets across the country are experiencing increased vacancies, lower rents and greater concessions, particularly for newer Class A projects.

Regarding market by market fundamentals, IRR survey respondents relayed a wide spectrum of market conditions, demonstrating that real estate markets truly are impacted foremost by local and regional forces. In the Northeast, market participants cite that apartment fundamentals have remained largely stable. Limited by high barriers to entry, vacancies in Northeast apartment markets stayed near 5%. Still, while higher quality properties continue to enjoy strong occupancies and stable rent, many older Class B properties are struggling to compete. As single-family residences are added to the market, IRR expects further pressure to be placed on lower end multi-family properties.

In the Southeast and other recently expanding markets, however, the influx of apartment supply, along with the troubles in the owner-occupied housing market, has caused apartment fundamentals to decline sharply. In the Naples/Ft. Myers market, for instance, apartment vacancy has increased from 7.87% two years ago to 13.37%. While limited supply has been added to the market over this period, the wave of home foreclosures which ranks as one of the highest in the nation has caused Naples' apartment market to falter as well. This dramatic shift in apartment performance has resulted in significant price declines for many property owners. According to IRR experts in the market, apartment properties sold in 2006 have been sold for as much as 60% less in 2009.

Despite these factors, investors still seem to prefer apartment properties over other commercial real estate options. In part due to generally stable cash flows and perceived lower credit risk thanks to tenant diversification, IRR expects apartment markets will continue to perform slightly better than other property types. As has been noted, however, such performance will be highly dependent on market fundamentals and economic stability.

**FIGURE 24**  
**CAP RATE TRENDS—APARTMENT**



# INDUSTRIAL

notably pessimistic for the second straight year, survey participants indicated that industrial property types are slightly more stable than other real estate classes.

## INDUSTRIAL BY THE NUMBERS

- The manufacturing capitalization rate average increased from 8.53% to 9.12%.
- The office/warehouse cap rate average also rose from last year's 7.99% to this year's average of 8.71%.
- R&D cap rates continue the upward trend with this year's average of 8.98%, up from last year's 8.42%.
- The bulk property class also saw a jump in cap rates from last year's 7.99% to this year's 8.71%.
- The relative ranking of bulk and office/warehouse cap rates improved, while manufacturing and R&D rankings were unchanged.
- Though the outlook for cap and discount rate movement is

Vacancy rates jumped from 8.57% to 10.17%. Notably, projected annual absorption for 2010 - 2012 decreased 41% from 86 million square feet per year to 51 million square feet per year.

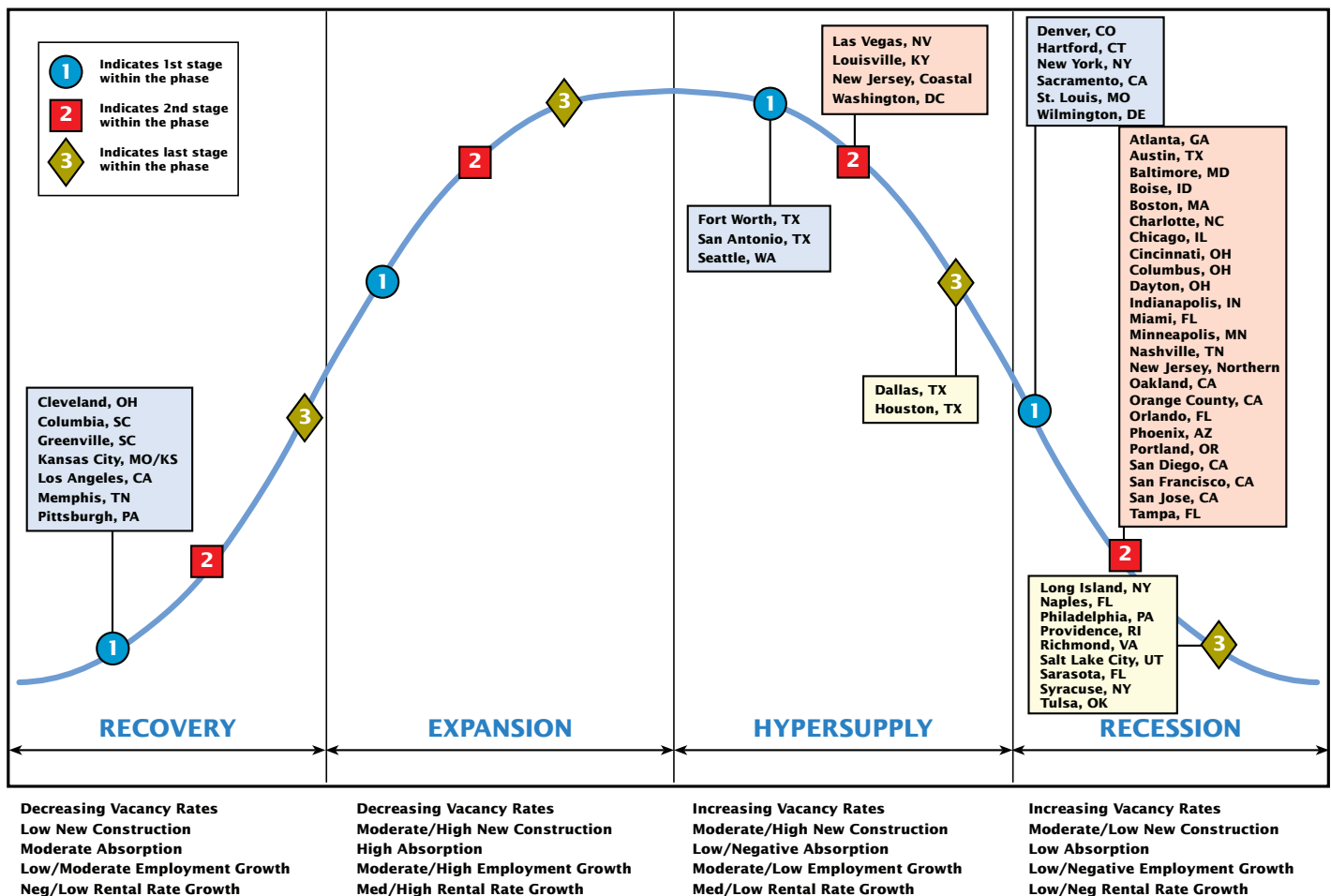
Also, development in the pipeline has seen a decrease. Last year, 325 million square feet were in the pipeline, as compared to this year's 197 million square feet.

## QUICK MARKET GLANCE

In last year's review and projection of industrial property market health, we focused on the historically low U.S. consumer demand and its impact on demand for industrial space. One year later, we observe that consumer demand remains a primary concern for industrial sectors. In February of 2009, the U.S. Consumer Demand Index (CDI) reached a historic low. While the second and third quarters of 2009 sparked hope that consumer confidence and spending would return thanks to such nationwide stimulus programs as "cash-for-

FIGURE 25

### INDUSTRIAL MARKET CYCLE



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TABLE 26

**INDUSTRIAL MARKET CONDITIONS AND FORECASTS:** Central Business Districts and Suburban Areas

MARKET AREA	INVENTORY (SQ. FT.)	VACANCY RATE (%)	VACANCY (SQ. FT.)	AVG ANNUAL NET ABSORP. 2006-2009 (SQ. FT.)	TOTAL UNDER CONST. 2010-2013 (SQ. FT.)	FORECAST AVG ANNUAL NET ABSORP. 2010-2012 (SQ. FT.)	TOTAL VALUE CHANGE 2006-2009 (%)	FORECAST TOTAL VALUE CHANGE 2010-2012 (%)	EST. YEARS TO BALANCE
Atlanta, GA	611,632,897	12.60	77,094,494	5,674,252	16,304,000	2,371,667	-11.00	-10.00	7
Austin, TX	37,854,642	18.40	6,965,254	187,947	2,340,000	516,667	30.00	0.00	4
Baltimore, MD	239,000,000	10.70	25,573,000	1,528,750	1,420,521	1,078,364	-20.00	5.00	5
Boise, ID	30,434,000	12.08	3,676,799	315,700	35,300		4.63		3
Boston, MA	102,800,000	24.76	25,452,000	-655,000	0	0	-12.00	-5.00	10
Charlotte, NC	40,042,793	14.26	5,709,480	994,083	104,294	300,000	12.00	-5.00	3
Chicago, IL	1,141,215,688	11.78	134,396,719	5,453,460	13,799,142	2,137,667	-16.00	2.00	5
Cincinnati, OH	297,000,000	7.14	21,191,500	-1,250,000	6,250,000	1,250,000	3.00	1.00	1
Cleveland, OH	378,036,000	7.60	28,738,556	2,075,000	8,150,000	1,700,000	3.00	-2.00	2
Columbia, SC	34,425,000	8.00	2,754,000	500,000	950,000	225,000	-1.00	3.00	4
Columbus, OH	204,000,000	11.37	23,191,000	500,000	4,850,000	650,000	-8.00	2.00	10
Dallas, TX	507,359,503	11.62	58,938,263	1,681,761	10,745,000	3,605,000	-12.00	-5.00	3
Dayton, OH	99,975,000	9.96	9,953,313	-295,000	100,000	-66,667	-9.00	-10.00	5
Denver, CO	179,378,836	7.52	13,493,062	1,864,828	5,277,000	1,530,333	4.00	2.00	2
Detroit, MI	210,406,000	18.33	38,572,080	-5,540,000	671,000	7,469,333	-3.00	-6.00	5
Fort Worth, TX	238,171,614	10.72	25,531,334	739,703	8,446,000	1,951,333	-5.00	-5.00	3
Greenville, SC	144,350,000	10.50	15,156,750	450,000	1,600,000	350,000	-7.00	3.00	6
Hartford, CT	86,772,888	11.40	9,892,109	-450,000	495,000	-50,000	-10.00	-10.00	7
Houston, TX	481,400,000	7.05	33,926,545	7,945,000	11,052,851	945,000	3.50	4.50	
Indianapolis, IN	218,600,000	8.97	19,598,000	1,350,000	16,000,000	4,333,333	5.00	-5.00	5
Kansas City, MO/KS	231,000,000	8.35	19,295,000	-1,912,380	3,000,000	1,000,000	-10.00	5.00	6
Las Vegas, NV	103,381,016	10.59	10,949,231	1,435,693	6,107,914	2,275,667	-5.00	2.00	4
Long Island, NY	47,800,000	8.00	3,824,000	-1,200,000	400,000	166,667	-18.00	-2.00	5
Los Angeles, CA	1,029,547,706	4.92	50,662,839	-1,370,502	15,452,000	3,469,000	5.00	-15.00	2
Louisville, KY	61,020,000	26.01	15,871,400	415,000	0	400,000	3.00	2.00	5
Memphis, TN	190,750,862	14.96	28,545,606	2,349,884	941,262	750,000	0.00	0.00	3
Miami, FL	244,519,067	10.04	24,543,796	-4,359,772	393,675	-1,300,000	10.00	-10.00	4
Minneapolis, MN	113,752,682	12.53	14,258,075	1,280,477	6,741,000	1,339,333	-10.00	5.00	3
Naples/Ft. Myers, FL	47,510,533	13.23	6,285,308	-678,152	20,000	-448,128	-26.47	-10.00	5
Nashville, TN	153,834,092	10.12	15,565,784	-806,811	2,740,000	-300,000	-15.00	-3.00	3
New Jersey, Coastal	36,115,000	8.25	2,979,770	-68,000	375,000	166,667	2.00	-6.00	3
New Jersey, Northern	714,000,000	8.70	62,118,000	-1,500,000	450,000	-1,466,667	-20.00	-6.00	4
New York, NY	38,000,000	11.00	4,180,000	-400,000	0	100,000	-20.00	-5.00	10
Oakland, CA	230,607,000	11.13	25,676,130	-2,635,400	3,075,000	1,134,333	-15.50	-5.00	3
Orange County, CA	308,495,598	6.58	20,305,183	-6,216,164	3,209,000	299,000	-25.00	-10.00	
Orlando, FL	109,862,000	13.51	14,841,155	-271,400	3,588,500	1,601,000	-10.75	-5.00	4
Philadelphia, PA	459,575,032	9.64	44,293,698				-2.00	-3.00	3
Phoenix, AZ	274,705,179	14.11	38,767,480	-1,885,000	4,000,000	833,333	-5.00	-10.00	5
Pittsburgh, PA	120,667,183	9.47	11,428,099	1,383,400	1,200,000	-200,000	2.00	0.00	2
Portland, OR	156,530,724	8.47	13,258,944	1,890,193	1,165,000	555,000	-10.00	-5.00	4
Providence, RI	25,000,000	10.00	2,500,000	45,000	295,000	45,000	0.00	-15.00	7
Richmond, VA	93,835,000	10.04	9,421,000	-485,000	1,700,000	166,667	-2.00	-5.00	0
Sacramento, CA	168,400,000	12.67	21,343,000	1,222,700	3,275,000	703,667	-12.00	0.00	10
Salt Lake City, UT	111,319,347	7.90	8,794,228	4,670,426	4,500,000	2,166,667	0.00	-5.00	3
San Antonio, TX	58,261,000	11.60	6,758,276	452,000	2,391,100	553,000	10.00	5.00	9
San Diego, CA	188,448,725	9.60	18,097,440	900,000	2,000,000	1,000,000	-3.00	-9.00	5
San Francisco, CA	89,874,000	8.50	7,639,184	1,160,300	1,979,000	371,667	-13.00	-5.00	3
San Jose, CA	216,289,000	13.40	28,979,376	-591,500	3,473,000	1,354,667	-10.00	-5.00	3
Sarasota, FL	51,252,604	9.94	5,096,034	32,359	0	341,432	-31.77	-10.00	3
Seattle, WA	287,440,951	6.70	19,269,416	2,887,960	1,350,000	-416,667	-5.00	-10.00	3
St. Louis, MO	197,050,000	8.70	17,143,350	998,500	5,051,000	1,150,000	-12.00	-5.00	7
Syracuse, NY	24,143,000	10.20	2,462,586	160,250	10,000	350,000	-3.00	4.00	4
Tampa, FL	85,364,250	12.74	10,877,055	1,910,179	4,336,000	937,333	-12.00	-20.00	10
Tulsa, OK	60,300,000	8.00	4,824,000	500,000	650,000	0	13.00	-5.00	5
Washington, DC	196,144,838	15.10	29,617,871	-116,346	3,868,000	1,757,667	-15.60	2.10	9
Wilmington, DE	30,800,000	12.09	3,724,000	30,000	740,000	113,333	-3.00	-5.00	10
	<i>Total:</i> 11,838,450,250	<i>Simple Avg:</i> 11.10	<i>Total:</i> 1,204,000,571	<i>Total:</i> 22,298,377	<i>Total:</i> 197,066,559	<i>Total:</i> 51,266,668	<i>Average:</i> -5.70	<i>Average:</i> -3.81	<i>Average:</i> 4.80
		<i>Weighted Avg:</i> 10.17							

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clunkers,” data for the fourth quarter has indicated a retrenching of the recessionary trends that have dominated the last two years.

Unlike the other three main property types, the industrial market did not experience the rapid expansion and price increases which were typical of other real estate types. As a result, the commercial real estate decline has not had as much of an impact on industrial property fundamentals. In most markets, additions to supply have been limited in recent years so that despite the drop in demand, the supply and demand disparity witnessed in other property types is not as overwhelming. Still, the economic woes of the past two years have created significant problems for industrial investors in many markets. Though vacancy rates and actual rents have remained somewhat stable, market participants observe that the trend of offering increased tenant concessions has decreased effective rents significantly. In Minneapolis, for instance, increased concessions over the past year are

estimated to have decreased effective rental rates by one dollar. Furthermore, many industry participants are guarded in their projections of when industrial activity will recover.

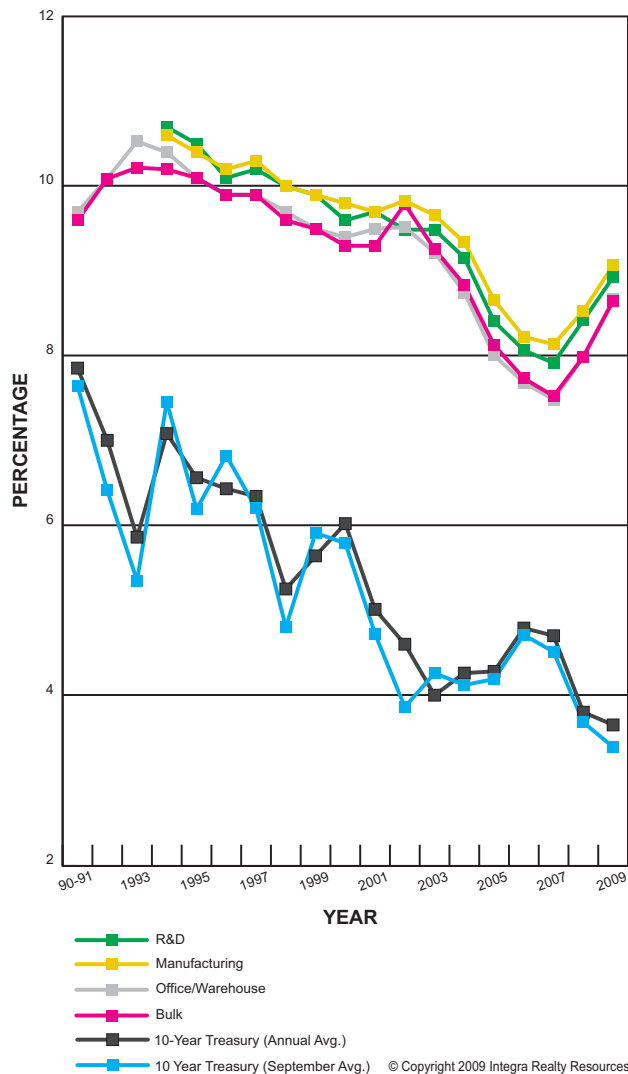
Despite the fact that supply and demand is not substantially imbalanced, survey participants indicated that markets will require an average of over four and a half years to balance. Should economic conditions fail to improve, we expect that rental rates will continue to fall and vacancies will rise, as annual net absorptions remain negative in most markets. Looking forward, however, we note that developments in intermodal centers may provide significant advantages to certain markets.

Despite the recession, selected markets with strong intermodal facilities have experienced moderate growth. In Columbus, OH, for instance, industrial development focused on bulk distribution has continued around the 1,200 acre Rickenbacker Intermodal Facility. Similar trends are expected in the Kansas City market, where IRR experts report that “intermodal projects are teed up and ready to go.”

Looking forward, the completion of the Panama Canal expansion, which is estimated for 2014, is expected to drive new development of intermodal facilities and surrounding industrial space, particularly in eastern U.S. markets. As these markets gain increased transportation traffic, however, some regions will likely realize declining activity. The completion of the expanded canal could inhibit recovery and lower long-term expectations in historically strong West Coast port cities such as Los Angeles and Seattle. These markets are likely to experience a notable decline in goods transportation as shipping companies pursue transit routes which were previously restricted due to the limitations of the current canal’s capacity.

IRR-San Antonio reports that the Sand & Gravel Mining Industry in the U.S. is made up primarily of quarry operators mining sand and gravel (95%) as well as clay, ceramic and refractory minerals (5%). The industry production peaked in the year 2006 and began declining in 2007 with a sharp decline in 2008 caused by the national recession and an unprecedented drop in the housing construction market. Since the industry production peak in year 2006, the market has declined by some 30% overall through 2009, with some areas feeling even sharper declines reportedly from 40% to 60%. Overall revenues have declined over the same time period by some 25%. However, the industry is expected to bounce back over the next five years growing at a rate of 5% to 6% per annum, returning to near year 2006 levels by year end 2014 in both overall production and revenues. The future growth is anticipated to result from a rebound in the housing construction market in the short term and an increasing demand in the highway and bridge construction market in the long term.

**FIGURE 27**  
**CAP RATE TRENDS—INDUSTRIAL**

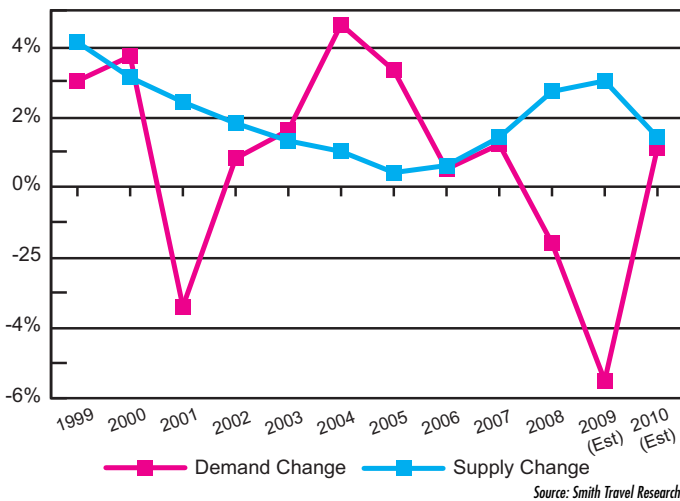


# LODGING

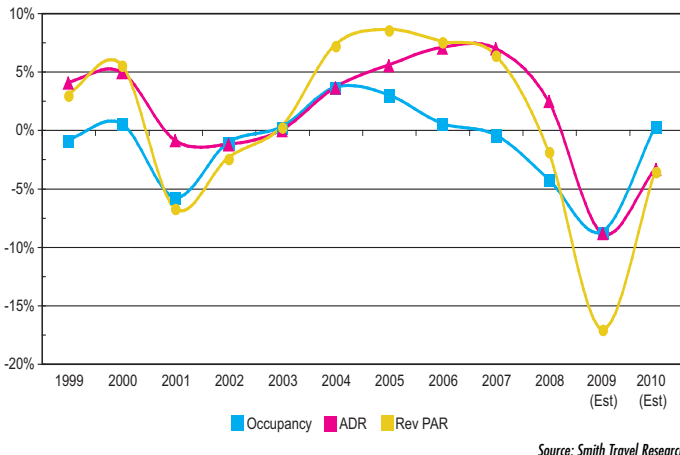
By: IRR-Lodging / Hospitality Specialty Practice Group  
 Bruce Daubner, MAI MRICS  
 Kenneth Jagers, MAI, FRICS

It is with a palpable unease that hotel owners, operators and lenders enter 2010. Smith Travel Research suggests that principals in this property type have all but written off 2010 insofar as a reversal of fortune is concerned. Lodging combines the risk and reward dynamics of real estate and a service business all subject to the fickleness of the consumer wants and needs. Operators are continually reinventing and redefining themselves in response to consumer trends and the realities of the financial markets. At present, operators are courting the favor of the Boomers, Gen Xers, and Millennials. Any expectation of recovery requires an understanding of recent history in the lodging sector. Nationwide indicators according to Smith Travel Research are shown below.

**FIGURE 28**  
**U.S. SUPPLY & DEMAND GROWTH**  
**1999-2009 AND 2010 FORECAST**



**FIGURE 29**  
**U.S. HOTEL MARKET YEARLY PERCENT CHANGE**



The total supply of rooms is estimated to be up 3.2% for 2009, which is the largest increase since 1999. However, demand was down nearly 2% in 2008, is forecast to end 2009 down another 5.5%, and is forecast to bounce back only 2% in 2010. This demonstrates that the lodging sector is the most volatile of the major property types.

Occupancy is forecast to finish down 8.8% for 2009 and up 0.2% in 2010. ADR is projected to end 2009 down 8.9%, and down another 3.4% for 2010. Note that in 2001 overall occupancy was down 5.8% and RevPAR was down 6.8% despite modest increases in the months prior to the September terrorist attacks. The anticipated 2009 decline by Smith Travel Research has the RevPAR falling 17.1% with further declines in ADR and RevPAR forecast for 2010 as well.

Operations is one thing and investment is quite another. It appears that for 2009 and likely through some of 2010, the buyers may just as well be on holiday. We highlight below the transactions reported by Real Capital Analytics comparing robust 2007 with sleepy 2009. For both full and limited service facilities capitalization rates increased over 150 basis points from 2007 through October 2009. Most telling is the drastic decline in the dollar volume and the number of transactions for the three years highlighted.

**TABLE 30**

	Trailing 12 Months Ending Oct.	Sales Volume (Millions)	Sales Volume Properties	Average Price/Room	Weighted Average Cap Rate
Full Service	2007	\$57,300	879	\$170,000	7.55%
	2008	\$10,100	281	\$159,000	7.34%
	2009	\$1,800	91	\$109,000	9.11%
Limited Service	2007	\$21,100	1,777	\$101,000	8.54%
	2008	\$3,775	378	\$97,000	9.09%
	2009	\$1,056	82	\$106,000	10.32%

Source: Real Capital Analytics

Hotel News Now identified over 30 equity funds totaling over \$30 billion that are perched like hungry vultures awaiting the smorgasbord of distressed lodging properties. Also with an appetite for bargains are the REITs. Hotel REITs have raised new equity to the tune of nearly \$2.0 billion through 3rd quarter 2009. Real Capital Analytics estimates there to be nearly \$24 billion in distressed hotel properties as of 3rd quarter 2009. That total is more than \$30 billion if the casinos are included. One would expect that the table is set with plenty of room for the equity funds, REITs and even hotel operators to share in the bounty. However, the product has not come to market, and REITs with heavy dividend pressure could be priced out almost before the party starts. This all remains speculative as 2009 turns into 2010. Special servicers have thus far been reluctant to offer up lodging properties for what history indicates could be deep discounts, and other lenders remain in large part in the "pretend and extend" mode.

# SENIORS HOUSING

By: IRR-Seniors Housing and Health Care Specialty Practice  
Charles A. Bissell, MAI, CRE

## SECTOR FUNDAMENTALS

There is no denying that the demographic trends impacting the seniors housing sector are positive. As of the 2000 Census, there were 34.1 million elderly Americans (those aged 65 and older), making up nearly 13 percent of the total population. The elderly population is expected to more than double by the year 2030 to 70 million, to make up 20 percent of the total population. The oldest population segment, people aged 85 and older, is expected to grow the fastest. As of the 2000 Census, there were 3.8 million Americans aged 85 and older, forming ten percent of the elderly population and just over one percent of the total population. This population is expected to double by 2030 to become almost three percent of the total population. By the middle of this century, there are likely to be more persons who are elderly (65 or over) than young (14 or younger). In 2050, as many as one in five Americans could be elderly. Much of this growth will occur between 2010 and 2030, when the "Baby Boom" generation enter their elderly years.

Despite the positive long term outlook for seniors housing, each of the three primary seniors housing types has been negatively impacted by the national recession that began in December 2007. Independent living occupancy levels have decreased the most. This has been caused by issues in the housing market and the decline in consumer confidence, which have caused many seniors to delay

**FIGURE 31**  
**CAP RATE COMPARISON**



this lifestyle choice. Assisted living, which is more need based, has been impacted to a lesser degree. Still, assisted living and dementia care occupancy levels have fallen somewhat, as families have delayed the decision to move a loved one into a facility. As a result, seniors entering facilities are frailer. This has resulted in small declines in occupancy, but service income has grown as facilities are able to charge more for dealing with a frailer clientele. Lastly, the skilled nursing sector has experienced only modest occupancy declines. Since the majority of nursing home stays are funded by Medicaid, Medicare and private insurance, the financial health of the senior and their family is less of an issue; thus, the impact on occupancy has been less dramatic.

## CAPITALIZATION RATES

Historically, seniors housing capitalization rates have moved in lock step with cap rates for other asset classes (the sole exception being SNF cap rates which have remained in a fairly narrow band). This is shown in the graph on this page.

Looking forward, the other asset classes are going to be impacted by the huge wave of debt maturities, which peaks in 2013. Many loans will not qualify for refinance, so many are likely to go into default or have negotiated modifications, which will create additional stress in the market. This alone could lead to rising cap rates. Add to that the potential for rising inflation and interest rates, and it is evident that there is a much higher probability that cap rates will rise rather than decrease in the four primary sectors. On the other hand, seniors housing is becoming more and more attractive to investors, who view it as being somewhat recession resistant. Furthermore, due to the aging population, demand for seniors housing is increasing, while the supply is not likely to grow much over the next few years due to limited availability of construction financing. These dynamics will likely lead to increased investor activity in the seniors housing sector, which may serve to compress capitalization rates relative to other sectors of the market.

## 2010 FORECAST

It appears that occupancy levels have bottomed in 2009 as several operators reported 3rd quarter gains. There is very little new construction underway in the seniors housing market, but demand will continue to grow. Thus, it is likely that occupancy levels and rent levels will increase for several years as supply tightens.

New capital is likely to continue to flow into the sector. The REITs that focus on seniors housing have built large war chests of funding, and will need to deploy it over the next few years. In addition, a number of institutional and opportunity funds have been raised and are seeking opportunities to invest this capital. While 2009 saw very few sales transacted, it is expected that 2010 will see many more deals get closed. Due to sound fundamentals and the opportunities for income growth, we do not expect to see capitalization rates increase much over 2009 levels.

One wild card is Health Care Reform. Any bill impacting Medicaid and/or Medicare reimbursement for nursing homes, or impacting health insurance costs for operators could negatively impact the seniors housing industry as a whole.

By: *Integra Realty Resources Mexico*  
*Oscar J. Franck Terrazas, MRICS*

Mexico will remember 2009 as one of the harshest years ever, as it had to contend simultaneously with various crises. In the third quarter, the economy bottomed-out with a 10.3% decrease in GDP - the worst since the Great Depression. Additionally, Mexico had to contend with the H1N1 influenza epidemic, which seriously affected the tourism trade as evidenced by the hotel occupancy rate declining to 25%. Foreign remittances from workers abroad fell by 17%. Manufacturing exports to the U.S., Mexico's No. 1 customer, fell by 22.7% through Q1 -2009, which was accentuated by Mexico's declining oil exports. Mexico's fight against organized crime continues to cost the country lives, billions of dollars, and substantially decreased foreign investment. As a result of these crises experienced in 2009, Mexico has colossal challenges to overcome in 2010.

Despite the global economic slowdown, the housing industry was not severely impacted in 2009. Absorption and rental levels remained close to those of 2008. The construction industry suffered a contraction of 8.2%, as compared to a decline of 30%+ in the U.S. Housing industry. Participants predict that 2010 will be a year of continued challenges and opportunities. The real estate markets in coastal cities, where foreign buyers are the core customers, have been the most heavily affected. The U.S. economic crisis combined with the security crises in Mexico have drastically impacted sales of second homes in Mexico.

Rents for quality industrial space are under pressure, and the current national average annual rent of \$4.80 per square foot is expected to decrease slightly in the short term as lease conditions become more flexible. As the economy recovers, rents are expected to resume annual growth of approximately 3%.

The retail market experienced growth exceeding 11% in 2008 increasing total inventory to over 163 million square feet nationwide. From 2006 to 2009, the number of shopping centers grew from 250 to over 400. Demand for retail space, which was strong during the first three quarters of 2008, slowed substantially during late 2008 and 2009 with lower traffic centers being most heavily impacted and where retailers are likely to request rent reductions from landlords.

During 2008, the office markets in Mexico's top 5 metropolitan areas posted growth of over 7%. The largest growth occurred in Class A+ and trophy buildings. In fact, despite the global economic crisis, there are several major Class A+ buildings under construction resulting in substantial growth of the available inventory in 2009 and 2010.

In the past, Mexico has proven its resiliency and ability to recover from challenges such as deep recessions and the former instability of the peso. Mexico's credit and mortgage policies have been much stricter than in the U.S. With little or no credit,

*Continued on Page 32*

By: *Altus Group*  
*Denis F. Chevalier, AACI, É.A.,*  
*Peter Norman, M.A.*  
*David Jenkins, HBA, AACI, FRICS*

**TABLE 32**  
**CANADIAN ECONOMIC OVERVIEW**

	2008	2009 (Est)	2010 (Est)	2011 (Est)
Real GDP (% change)	0.40%	-2.30%	2.40%	3.30%
Employment (thousands)	17,126	16,835	16,900	17,100
Inflation (% change)	2.40%	0.80%	1.50%	2.00%
10-Year Bond Rate, Canada	3.61%	3.50%	4.20%	4.80%
Exchange Rate (\$1 U.S. =>)	\$1.06	\$1.08	\$1.06	\$1.00
Housing Starts (thousands)	211.1	135.8	145.0	170.0

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Sources: *Altus Group Economic Consulting, Statistics Canada, Bank of Canada, Conference Board of Canada*

The outlook for the Canadian economy is turning more optimistic with the emergence of encouraging data and a growing consensus that the worst of the recession may have come and gone.

Canada's recession has been shorter than in the U.S., but has still managed to leave deep scars. The workforce is estimated to have shrunk by some 415,000 workers from peak to trough and expectations are for a very slow recovery on the job front. Meanwhile unemployment rates in Canada have reached a 12-year high, and are particularly troublesome among youth.

The housing market does not suffer from the same mortgage market troubles as in the U.S. but a weak economy has put the brakes on housing investment. Housing starts have fallen precipitously, and are expected to make only a slow comeback. Recent data on existing home transactions shows more of a bounce back due to strong affordability. Housing prices in Canada have generally been stable throughout the recession.

Commercial real estate has been affected by the recession and by the financing crisis but not to the same extent as in the U.S. Estimates show that the number of sales transactions is down 52% across Canada in the first nine months of 2009, relative to the same period in 2008.

Overall Capitalization Rates reported by the quarterly Altus InSite Investment Trends survey averaged a low of 6.4% in Q3 2008 and rose to 7.2% in Q1 2009. Cap rates stabilized at that level in both Q2 and Q3 2009. The corresponding Internal Rates of Return were 7.6% in Q3 2008, 8.4% in Q1 2009 as well as in Q2 and Q3.

These findings are based on a sampling of 4 high-quality property types (Office AA, Tier 1 Regional Shopping Centre, Single-Tenant Industrial and Suburban Multifamily) in Canada's eight major cities (Vancouver, Edmonton, Calgary, Toronto, Ottawa, Montreal, Quebec City and Halifax). For the same four

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# GAMING

By: *Integra Realty Resources, Coastal New Jersey and  
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*Anthony S. Graziano, MAI, CRE, FRICS-Chairman &  
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*Anthony M. Graziano, MAI, CRE, FRICS*

The Gaming Industry is dependent on disposable income and the current loss of wealth is a significant factor in the national economy. The gaming industry is in pain. If the tourist/gamblers perceive they have lost money in their home equities or 401k's, they are less likely to spend money. It's not the fashionable thing to do right now. Gaming was living off of the unsustainable spending level of a leveraged population that had easy access to cheap credit and a false feeling of wealth.

Harrah's, which owns or manages 53 Casino's worldwide, has trimmed it's debt to \$19.3 billion. Harrah's has \$501.8 million in debt due in 2010 and \$168.9 million due in 2011. The next big payoff will be a mortgage backed security that matures in 2013 for \$6.5 billion. Harrah's announced an \$89.5 million agreement to buy Thistledown horse racetrack in Cleveland. Additionally, they purchased \$860 million of Planet Hollywood Resorts debt as a possible bid to acquire the strip hotel-casino. Why buy more when they are over loaded with debt now? Jan Jones, Harrah's Senior VP of communications, says the company executives believe the current economic environment is providing opportunities for cash smart investments such as the company's expansion into Ohio's gaming market.

MGM Mirage is the largest owner and operator on the Strip. Under a new plan, they hope to increase profit by managing hotels abroad without investing in land or development. They think this may be their only plan for expansion as they continue to operate with \$12.36 billion of debt.

## LAS VEGAS

Gaming revenue was going up for so long (1989-2007), how could it ever go down? Nevada's gaming win was down 13.82% in fiscal year 2009. The Strip's win was down 15.27%. Hotel occupancy was down 720 basis points and average daily room rates dropped 25.5%. Clark County has been down 19 months in a row.

The clients now expect "A" properties. No one would build less than an "A" property. But the cost to build, operate, and amortize an "A" property is a huge "nut". With occupancy levels down, the rates for "A" properties are nearing a low of \$100 per night, where they used to get \$399. The market knows that, and everyone wants a good deal.

The biggest problem is that developers followed the leveraging strategy of the typical homeowner. When financing was cheap, they went out and borrowed billions for big expansions like City Center, or new hotels like The Fountainblue. Some of these

stopped construction before they got too far off the ground like Echelon and The Plaza. Fountainblue was 75% complete before it stopped. The cost of financing for construction, and taking Harrah's private, is costing a great deal more of the win than was projected during the good times.

## ATLANTIC CITY

Atlantic City casinos had a run of bad luck for the third year in a row. Casino win in Atlantic City began slipping in 2007 for the first time in 30 years. August, 2009 year-over-year gaming revenues fell an additional 15.12%. Even with the most optimistic estimate for the remaining four months of 2009 Integra projects win over the three year period (2007-2009) will be down more than 20%.

In addition to industry stress caused by national economic conditions, Atlantic City faces growing competition from Pennsylvania and New York. Win figures as of August, 2009 do not even consider Atlantic City's biggest threat, the new Sands Casino in Bethlehem, PA.

In 2007, only five out of the eleven Atlantic City casinos had positive net revenues. For 2008, The Borgata Hotel was the only operator reporting positive net revenues. Timothy Wilmotts, COO of Penn National Gaming remarked in February, "It's impossible to escape the reality that we are an industry (gaming) in crisis."

The Casino Control Commission estimates that as of August, 2009, casino employment is down by almost 12% since 2006. Occupied room nights have remained level, but ADR is down almost 7%.

New projects planned for the City; Pinnacle Entertainment; Cape Advisors; and Citi Center East have all been put on hold. Plans to convert the Trump Marina property to a Margaritaville-themed, Jimmy Buffet brand have fallen apart. Bondholders are taking over the Tropicana for pennies on a dollar.

Revel Entertainment, with almost \$1.2 billion invested in their partially completed project, recently announced they are "fairly confident" funding is available, and expect opening toward the end of 2010. Kevin DeSanctis, CEO of Revel Entertainment remains enthusiastic about an Atlantic City opening. At a recent Stockton University symposium DeSanctis noted that the hardcore gambler is losing his relevance in the gaming industry. The large-scale resort entertainment complex is now part of the American entertainment experience. With 47 million adults within a five hour drive of Atlantic City, Revel is proposing a destination resort for the whole family.

With New Jersey's largest concentration of 4 and 5 star hotels, the state's largest convention center and the recently renovated Boardwalk Hall, Atlantic City is positioning itself to attract greater regional and national convention action.

The real estate credit crisis will put a hold on most new developments for years. A competitive resort casino requires capital investments greater than \$1 billion. With declining

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# GREEN BUILDING

By: *Integra Realty Resources – San Francisco*  
*Melissa Arabian Edling, LEED AP*  
*Patrick Devinger, LEED AP*

## “GREEN” RETROFITTING FILLS GAP AS NEW CONSTRUCTION DWINDLES

You no doubt have heard the term “green building” by now. Simply put, green building is the term utilized to describe the fundamental shift toward focusing on the operational efficiency and material quality of the current and future building stock. According to the United States Green Building Council (USGBC), “buildings in the United States are responsible for 39% of CO<sub>2</sub> emissions, 40% of energy consumption, 13% of water consumption and 15% of GDP per year, making green building a source of significant economic and environmental opportunity. Greater building efficiency can meet 85% of future U.S. demand for energy, and a national commitment to green building has the potential to generate 2.5 million American jobs.” Over the past decade this movement has gained significant traction and has politically and legislatively cemented itself among the real estate realities of today. Given the expansiveness of the “green building” movement, it is imperative that valuations and underwriting of these assets consider the operating characteristics with respect to sustainability and their overall impact on financial performance.

There are three predominant ratings systems assigned to buildings within the commercial property sector: Leadership in Energy and Environment (LEED), Energy Star and Green Globes. According to the United States Green Building Council’s website, “35,000 projects are currently participating in the LEED system, comprising over 4.5 billion square feet of construction space in all 50 states and 91 countries.” This represents the most widely-used rating system in the U.S. In contrast, there are approximately 8,114 facilities representing 1.5 billion square feet rated under the Energy Star program located within all 50 States, the District of Columbia and Puerto Rico.

As local and national economies continue to struggle, market fundamentals for all property types have deteriorated. Despite the economic downturn, interest in green building remains robust; however, unless the project is pre-leased, an owner-user asset or a government building, the focus has shifted from new construction (LEED-NC) to retrofitting existing buildings (LEED-EB). Charlie Popeck, President and CEO of Green Ideas, a green building consultancy in Phoenix, indicated that building owners, including Fortune 500 companies, are refocusing on capital projects within their facilities to realize operating cost reductions and long-term savings as well as establishing their commitment to the greater community. Green Ideas was selected in April to consult with the Arizona Diamondbacks on their renovation of Chase Field, only 12 years old, to become the first LEED-EB Major League Baseball Stadium in the Country in time for hosting the 2011 All Star Game.

As Vice President of Simon and Associates, Inc., an internationally recognized green building consulting firm, William Worthen, AIA, LEED AP has been involved in sustainable projects for both new construction and renovations. A dramatic decrease in new construction has meant that a majority of the active projects reflect renovations to existing buildings. Worthen notes that his clients (property, portfolio and asset managers) view upgrades to existing buildings as the only way to remain competitive in the marketplace.

Worthen states that obtaining a LEED-EB encourages management to rethink the operations and maintenance program of their properties. A recent retrofit of the Rincon Center, a Class A office building in downtown San Francisco built in 1988, included a plumbing retrofit that totaled \$39,000 for the replacement of 110 toilets with low-flow, dual-flush toilets. These new fixtures saved the building 11,100 gallons of water a day, or \$25,000 a year, resulting in a payback period of just over 1½ years. In the wake of increasing capitalization rates, decreases in operating expenses and potential increases in revenue can assist in mitigating the current declines in property values. Worthen indicates a LEED-EB certification also provides a road map for future capital expenditures. This approach provides clients the flexibility to “value engineer” necessary capital expenditures, building performance benefits, and fiscal responsibility; creating additional future increases in asset value.

Additionally, the LEED-CI (commercial interiors) has also increased demand for LEED-EB. This is due to the duplicative effects any changes based on the EB process can have for a CI certification. A building-wide program can provide credit towards tenant’s individual CI certification and vice versa.

In the wake of the national financial crisis, the American Reinvestment and Recovery Act has allocated approximately \$25 billion toward green building projects. Roughly \$5.5 billion is allocated to the GSA, which is tasked with upgrading federal buildings to high-performance green buildings with the goal of achieving LEED-Silver certification. In our discussions with Mr. Popeck and Mr. Worthen, both indicated that the market for retrofitting existing buildings is exponentially larger than that for new construction. In fact, McGraw Hill Construction reported in their *Green Outlook 2009* that “Green seems to be one area of construction insulated by the downturn, and we expect green building will continue to grow over the next five years despite negative market conditions to be a \$96-\$140 billion market (figures include both residential and non-residential construction).”

Given the momentum and institutional commitment to the green building movement, this structural shift calls for the understanding and development of strategies to adapt and persist in today’s constantly changing market. As valuation professionals, it is imperative to understand the intricacies of emerging practices in order to reflect the current investor’s expectations and not rely on historical trends. As more of the building stock is retrofitted to achieve higher performance standards (in addition to future new construction), the need to understand the relevance of these changes and their corresponding impact on value is paramount to delivering credible results.

# SELF-STORAGE

By: Charles Ray Wilson, MAI, CRE  
 Director - Integra Realty Resources – Metro LA

The operating performance of self-storage facilities has declined from its peak, but the sector continues to outperform other types of real estate. While performance is still below previous year levels, based upon more than 6,000 facilities in the 3rd quarter of 2009, there are signs that self-storage may be at the bottom of its cycle and ready for recovery.

## CURRENT STATUS

The Self Storage Performance Index (SSPI) © reversed direction, moving from its low of 89.8 set back in the 1st quarter of 2009 to 98.0 in the 3rd quarter of 2009. The Index has now had two straight quarters of back-to-back improvement.

Owners were able to increase the asking rental rates in the 3rd quarter of 2009 for the first time since June 2008. The median asking rental rate went up nearly 4.5% over the 2nd quarter of 2009 and was up over 1% compared to the 3rd quarter of 2008.

Physical occupancy increased 1% in the 3rd quarter vs. the 2nd quarter of this year, but was down 3% from the 3rd quarter of 2008. The median physical unit occupancy nationwide now stands at 85%.

The percentage of facilities that offered concessions remained relatively consistent over the past twelve months, but the cost of the concessions being offered continued to increase. Today, nearly 2/3 of all facilities offer some form of concession, i.e., discount, special promotion, etc. The two most popular are the \$1.00 Move-In and offering the first month free. After taking into consideration the cost of concessions, the amount of rental income per available square foot declined nearly 5% on a seasonally adjusted basis. This is a positive trend considering that in the 1st quarter of 2009 it declined 12.5% and in the 2nd quarter of 2009 it declined 12.0%. Annualized, rent per available square foot has declined 1.3% over the past twelve months.

## SUPPLY AND DEMAND

Another positive element in the self-storage sector is the level of new construction which has continued to decline since the 2nd quarter of 2008. The number of new facilities added to

**TABLE 33**  
**OPERATING PERFORMANCE INDICATORS**

	3Q 09 vs. 3Q 08	Annualized
Asking Rental Rates	1.1%	0.3%
Physical Unit Occupancy	-3.1%	-0.8%
Rental Income	-4.7%	-1.3%

Source: Self Storage Data Services, Inc. (SSDS)

the existing inventory has been less than 1% for the past several years.

Self-storage demand is unique in that it is not totally dependent upon a full economic recovery or even a full recovery of the housing market. Demand for storage comes in part from the very forces that cause economic turmoil such as; a death in the family, a divorce, a lost job or a home lost due to foreclosure.

An analysis of the trend in the net number of units absorbed each month (the number of move-ins vs. move-outs) indicates demand is improving over the same periods last year. The number of move-ins in October 2009 (at the time of this writing) was only down 2% over the same month last year, but more importantly, the rate at which tenants moved out in October declined 17% compared to October 2008.

The intent of the Most Improved Market list is to identify those markets that demonstrated the most significant change during the current year. The Aggregate Growth Score is reflective of the moving average percentage change in asking rental rates and physical occupancy for the current and the three preceding quarters.

**TABLE 34**  
**FIVE MOST IMPROVED MARKETS (3RD QUARTER 2009)**

	Aggregate Growth Score
1 Oklahoma City, OK	7.0
2 Hartford-West Hartford-East Hartford, CT	6.1
3 Buffalo-Cheektowaga-Tonawanda, NY	2.9
4 Rochester, NY	2.6
5 Denver-Aurora, CO	0.6

Source: Self Storage Data Services, Inc. (SSDS)

## INVESTMENT MARKET

Self-storage values peaked in late 2007 about the same time the capital markets froze. Today, there are investors ready to buy, but only when sellers recognize that their facilities are not worth as much today as they were a short time ago. Investors have also been waiting for those owners who over-paid or over-financed their facilities and who may be forced to sell in a down market. The majority of owners have been able to obtain loan extensions, but now that the government has changed banking policies, banks should start to work through those problem loans. This is easing the pressure on owners to sell and thus, it should help to stabilize values. However, as of today, the spread between the bid and the ask remains high and there have been very few transactions year to date.

## CONCLUSION

Self-storage should be among the first property types to recover and early signs of strengthening fundamentals are already starting to appear.

# DEMOGRAPHIC & ECONOMIC TRENDS

As with any industry bubble burst, the recovery stage that follows is a period which is marked by a critical review of industry metrics, benchmarks and indicators that precipitated the rise and decline of the market. Perhaps more than any prior issue, *IRR-Viewpoint 2010* has cast a critical eye on the supply and demand fundamentals that drive the commercial real estate markets. In our evaluation of the national retail market we examined how the shifting landscape of “brick and mortar” retailers could significantly alter the land use patterns in many markets across the country. As the commercial real estate industry begins a period of recovery that will likely be longer than those following past downturns, market participants will commit significant efforts to identifying how future population shifts will drive new growth and opportunity. Much of this analysis will focus on the demographic and economic forces which will shape what many have termed the “new normal.” Accordingly, IRR has once again compiled demographic data from the country’s largest Consolidated Metropolitan Statistical Areas (CMSAs), as well as ten additional markets in which IRR operates offices.

In this analysis, IRR would like to highlight two factors affecting demographic trends in the U.S.: 1) The prospects of re-urbanization in many metropolitan areas; and, 2) The growing influence of the next major demographic age group, the “echo boomers.”

For much of the past fifty plus years suburban and exurban communities have experienced extraordinary population growth. While the initial reasons for such growth were largely attributed to the typical benefits of suburban living, such as

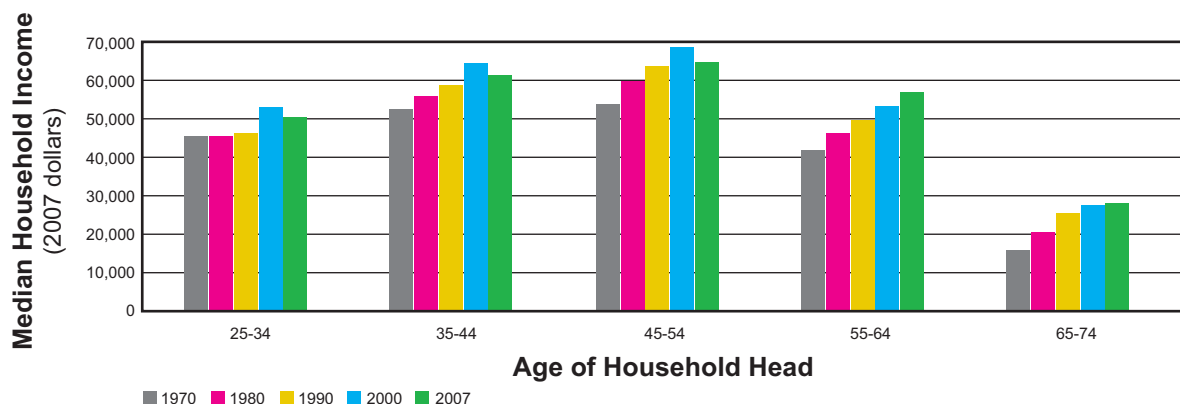
better school districts and lower real estate prices, the later acceleration and expansion of outer-ring development was much more a function of liquidity and speculative development. Over the past decade, peripheral cities and towns such as Gilbert, AZ; McKinney, TX; Victorville, CA; and Palm Coast, FL led the nation in growth, experiencing double digit annual population increases for much of the 2000’s. However, as vacancies rise and prices fall well below replacement cost, it is becoming increasingly apparent that the supply growth in such communities has far exceeded demand.

According to the U.S. Census Bureau, central city growth rates in the nation’s largest cities have risen to nearly equal the declining growth rates of their suburban counterparts after decades of suburban dominated growth. Compounding this trend, we note that, as a whole, the U.S. population is less mobile than it has been in the past. The most recent Current Population Survey issued by the U.S. Census Bureau reported that 11 million people moved across county lines in the year ended July 2008. By comparison, early decade annual cross-county movement exceeded 16 million<sup>1</sup>. As we further contemplate the aforementioned “new normal,” there is reason to believe that unbridled outward population growth may be a trend of the past.

However, these population shifts do not necessarily imply that only urban cores will participate in renewed growth. As examined by such land use experts as Chris Leinberger, Visiting Fellow at The Brookings Institution, many first and second tier suburban communities with walkable urban characteristics will be at the forefront of this shift towards re-urbanization. In a recent New York Times article, Leinberger observed that as much as 70% of existing and emerging walkable urban development is located in suburban communities. With increased focus on such live-work-play communities, IRR expects that in-fill development and new urbanism will play a very important role in establishing the new normal, both in central business districts and suburban centers alike.

The second demographic trend that IRR would like to highlight is the growing influence of the most populous generation to-

FIGURE 35



Note: Dollar values are adjusted for inflation by the CPI-U for All Items.

Source: Joint Center for Housing Studies of Harvard University

1. “Bursting ‘Migration Bubble’ Favors Coastal Metros, Urban Cores,” Brookings Institution.

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**TABLE 36**  
**DEMOGRAPHIC AND ECONOMIC TRENDS** Mid Year 2009

CMSA's	POPULATION									HOUSEHOLDS								
	2009		Annual Growth Rate			Absolute Annual Growth				2009		Annual Growth Rate			Absolute Annual Growth			
	Current	'09-'14	'09-'14	'00-'09	'00-'09	'09-'14	'09-'14	'00-'09	'00-'09	Current	'09-'14	'09-'14	'00-'09	'00-'09	'09-'14	'09-'14	'00-'09	'00-'09
(000's)	Rank	(%)	Rank	(%)	Rank	(000's)	Rank	(000's)	(000's)	Rank	(%)	Rank	(%)	Rank	(000's)	Rank	(000's)	
Atlanta, GA	5,494.34	9	2.48	8	2.90	1	143.19	1	138.48	1,978.51	9	2.38	8	2.72	1	49.34	1	47.15
Atlantic City, NJ	273.17	39	0.78	34	0.88	52	2.17	51	2.29	104.07	38	0.87	32	1.02	52	0.92	53	1.01
Austin, TX	1,659.85	4	2.70	4	3.20	14	47.32	13	45.56	614.64	6	2.57	6	2.98	15	16.60	15	15.86
Baltimore, MD	2,684.17	47	0.54	45	0.56	38	14.70	34	14.57	1,029.37	47	0.58	43	0.62	37	6.00	32	6.14
Birmingham, AL	1,120.69	43	0.74	42	0.70	47	8.39	45	7.61	445.69	40	0.83	39	0.87	46	3.77	43	3.70
Boise, ID	615.48	3	2.71	5	3.17	33	17.62	31	16.74	225.92	1	2.73	2	3.19	34	6.51	31	6.18
Boston, MA-NH	4,495.83	53	0.27	52	0.26	40	12.23	39	11.61	1,727.07	52	0.31	50	0.31	40	5.35	37	5.27
Buffalo, NY	1,118.86	60	-0.47	59	-0.50	58	-5.21	57	-5.69	458.17	60	-0.33	59	-0.25	58	-1.51	57	-1.17
Charlotte, NC-SC	1,720.59	8	2.53	9	2.90	15	45.75	14	43.35	665.30	4	2.58	5	2.99	14	18.11	12	17.20
Chicago, IL-IN-WI	9,602.18	46	0.60	44	0.60	11	58.66	11	55.98	3,452.21	48	0.57	45	0.57	10	19.96	10	19.13
Cincinnati, OH-KY-IN	2,155.52	42	0.74	37	0.78	34	16.16	32	16.21	841.65	43	0.78	40	0.86	32	6.67	30	6.94
Cleveland, OH	2,082.45	58	-0.34	57	-0.34	59	-6.99	58	-7.30	837.59	58	-0.27	57	-0.20	59	-2.25	58	-1.73
Columbia, SC	731.79	23	1.35	23	1.38	45	10.18	44	9.40	286.18	21	1.58	17	1.73	43	4.67	42	4.54
Columbus, OH	1,780.82	32	1.02	29	1.11	31	18.46	28	18.68	709.26	32	1.07	29	1.21	30	7.76	28	8.07
Dallas-Fort Worth, TX	6,348.83	11	2.10	11	2.33	2	139.33	2	131.92	2,270.33	14	1.99	12	2.11	2	47.07	2	43.25
Dayton, OH	832.09	57	-0.19	56	-0.21	56	-1.57	56	-1.78	340.18	57	-0.04	56	0.04	57	-0.15	56	0.13
Denver, CO	2,528.84	21	1.57	19	1.67	17	41.10	16	38.84	976.67	23	1.48	22	1.53	18	14.84	17	13.83
Detroit, MI	4,451.07	55	-0.04	54	0.00	57	-1.62	54	-0.17	1,710.22	55	0.03	54	0.09	54	0.60	51	1.47
Greenville, SC	628.09	24	1.33	26	1.28	46	8.58	46	7.57	247.94	24	1.47	23	1.48	47	3.74	45	3.42
Hartford, CT	1,195.00	49	0.43	48	0.44	50	5.19	48	5.15	466.00	50	0.46	47	0.49	51	2.14	49	2.24
Houston, TX	5,819.07	10	2.13	10	2.36	4	129.41	3	122.63	2,010.85	11	2.04	11	2.18	4	42.75	4	39.34
Indianapolis, IN	1,729.12	25	1.30	22	1.40	26	23.09	25	22.67	676.29	25	1.31	24	1.44	27	9.11	26	9.05
Jacksonville, FL	1,362.13	12	2.10	12	2.17	25	29.82	24	26.60	532.18	10	2.19	10	2.33	23	12.20	23	11.06
Kansas City, MO-KS	2,015.52	34	1.00	31	1.04	28	20.61	26	19.94	791.64	34	1.03	31	1.09	29	8.35	27	8.21
Las Vegas, NV	1,904.39	7	2.60	1	3.68	12	52.10	9	58.74	700.18	7	2.51	1	3.53	12	18.46	8	20.88
Los Angeles, CA	13,223.43	35	0.99	39	0.75	3	133.53	6	95.31	4,283.58	37	0.88	44	0.57	5	38.24	7	23.84
Louisville, KY-IN	1,249.87	37	0.83	35	0.81	42	10.58	42	9.77	505.79	35	0.95	33	1.01	42	4.91	39	4.84
Memphis, TN-MS-AR	1,295.55	40	0.78	36	0.81	43	10.27	41	10.04	489.46	36	0.90	35	0.98	44	4.46	41	4.55
Miami, FL	5,526.83	26	1.26	30	1.10	7	71.27	10	57.70	2,063.24	31	1.14	37	0.89	8	24.02	11	17.54
Milwaukee, WI	1,538.62	52	0.31	51	0.28	51	4.80	50	4.21	614.09	49	0.46	48	0.49	49	2.84	47	2.94
Minneapolis, MN-WI	3,258.20	33	1.00	32	1.04	22	33.40	21	32.15	1,256.49	33	1.05	30	1.12	20	13.47	19	13.32
Morgantown, WV	119.01	44	0.72	38	0.76	54	0.87	53	0.87	49.18	44	0.75	34	0.99	55	0.38	54	0.47
Naples, FL	336.57	1	2.87	2	3.30	44	10.23	43	9.47	134.78	2	2.72	3	3.04	45	3.87	44	3.53
Nashville, TN	1,568.64	17	1.84	15	2.01	24	30.00	22	28.54	613.80	16	1.89	13	2.07	24	12.04	22	11.51
New Orleans, LA	1,149.32	15	1.93	60	-1.50	27	23.09	60	-18.58	438.33	12	2.03	60	-1.42	26	9.26	60	-6.70
New York, NY-NJ-PA	18,870.04	51	0.31	49	0.33	9	59.52	8	60.78	6,823.90	53	0.27	52	0.24	13	18.32	14	16.33
Oklahoma City, OK	1,215.44	31	1.15	28	1.16	39	14.29	37	13.34	479.97	28	1.20	27	1.24	38	5.88	36	5.58
Orlando, FL	2,130.40	6	2.62	7	2.92	10	58.89	12	53.98	803.64	5	2.57	7	2.83	9	21.76	9	19.82
Philadelphia, PA-NJ-DE-MD	5,852.67	50	0.34	50	0.32	29	20.12	29	18.39	2,217.77	51	0.40	49	0.43	28	8.96	24	9.26
Phoenix, AZ	4,351.31	2	2.80	3	3.29	5	128.96	4	122.16	1,558.27	3	2.65	4	3.00	3	43.61	3	40.45
Pittsburgh, PA	2,340.28	59	-0.38	58	-0.42	60	-8.86	59	-10.09	974.33	59	-0.28	58	-0.24	60	-2.71	59	-2.35
Portland, OR-WA	2,218.76	22	1.50	21	1.57	21	34.38	20	32.32	855.12	22	1.48	21	1.54	21	13.01	21	12.18
Providence, RI-MA	1,596.51	54	0.06	53	0.09	53	0.93	52	1.50	624.86	54	0.13	53	0.20	53	0.79	52	1.23
Richmond, VA	1,230.61	27	1.21	25	1.29	36	15.30	33	14.85	480.02	26	1.26	25	1.36	36	6.20	33	6.10
Riverside, CA	4,216.85	5	2.66	6	2.92	6	118.41	5	106.89	1,301.39	8	2.47	9	2.58	6	33.72	5	29.62
Sacramento, CA	2,143.81	14	2.00	16	1.98	16	44.55	17	38.55	788.74	15	1.97	16	1.91	17	16.15	18	13.72
St. Louis, MO-IL	2,824.61	48	0.52	46	0.50	37	14.94	35	13.84	1,113.47	46	0.62	42	0.67	31	6.96	29	7.18
Salt Lake City, UT	1,128.47	19	1.69	17	1.71	30	19.67	30	17.74	370.18	18	1.68	18	1.70	35	6.44	35	5.78
San Antonio, TX	2,049.38	16	1.88	14	2.02	19	39.99	19	37.52	719.84	17	1.89	15	2.02	19	14.10	20	13.18
San Diego, CA	3,064.62	30	1.17	33	0.95	20	36.67	23	27.87	1,077.82	30	1.15	36	0.90	22	12.65	25	9.24
San Francisco, CA	4,302.27	41	0.74	47	0.47	23	32.40	27	19.84	1,594.95	45	0.64	51	0.30	25	10.36	40	4.78
San Jose, CA	1,852.23	36	0.97	41	0.72	32	18.30	38	12.94	612.04	39	0.87	46	0.57	39	5.39	46	3.37
Sarasota, FL	712.63	13	2.06	13	2.12	35	15.32	36	13.63	314.72	13	2.02	14	2.04	33	6.62	34	5.81
Savannah, GA	338.38	20	1.61	20	1.61	49	5.62	49	5.04	128.84	20	1.63	19	1.66	50	2.17	50	1.97
Seattle, WA	3,381.57	29	1.18	27	1.18	18	40.76	18	37.52	1,334.82	27	1.21	28	1.22	16	16.56	16	15.36
Syracuse, NY	643.41	56	-0.10	55	-0.12	55	-0.62	55	-0.75	253.78	56	0.02	55	0.08	56	0.04	55	0.19
Tampa, FL	2,785.04	18	1.73	18	1.69	13	49.94	15	43.23	1,158.83	19	1.64	20	1.55	11	19.63	13	16.61
Tulsa, OK	918.01	38	0.80	40	0.73	48	7.47	47	6.50	360.28	41	0.81	41	0.74	48	2.95	48	2.56
Virginia Beach, VA-NC	1,670.71	45	0.66	43	0.65	41	11.26	40	10.48	627.36	42	0.79	38	0.87	41	5.06	38	5.23
Washington, DC-VA-MD-WV	5,389.07	28	1.18	24	1.30	8	65.30	7	65.88	2,024.80	29	1.19	26	1.31	7	24.58	6	24.95
<b>Average</b>	<b>2,847.38</b>		<b>1.22</b>		<b>1.23</b>		<b>33.34</b>		<b>29.88</b>	<b>1,052.44</b>		<b>1.23</b>		<b>1.26</b>		<b>11.90</b>		<b>10.59</b>

Source: Claritas, Inc., compiled by Integra Realty Resources

This analysis includes the 50 largest CMSAs and all markets in which Integra Realty Resources maintains an office.

TABLE 36 continued

**DEMOGRAPHIC AND ECONOMIC TRENDS** Mid Year 2009

MEDIAN HOUSEHOLD INCOME										EMPLOYMENT									
2009 Current (\$)	Annual Growth Rate				Absolute Annual Growth				Labor Force Jul-09 (000's)	Unemployed Jul-09 (000's)	Unemployment Rate						2009 Rank	'06-'09 (% chg)	CMSA's
	'09-'14 Rank	'09-'14 (%)	'99-'09 Rank	'99-'09 (%)	'09-'14 Rank	'09-'14 (\$)	'99-'09 Rank	'99-'09 (\$)			Aug-06 (%)	Aug-07 (%)	Aug-08 (%)	Jul-09 (%)					
58,312	58	1.12	58	1.16	56	666.00	57	636.60	2,794.2	176.2	4.7	4.4	6.3	10.7	44	6.0	Atlanta, GA		
54,824	23	1.89	15	2.20	20	1,077.40	21	1,074.20	142.0	9.5	5.4	5.2	6.7	11.8	53	6.5	Atlantic City, NJ		
56,899	54	1.36	52	1.49	49	794.60	49	784.50	870.3	39.2	4.3	3.7	4.5	7.3	8	3.0	Austin, TX		
64,510	7	2.24	8	2.59	4	1,513.40	3	1,456.60	1,418.2	68.6	4.4	3.8	4.8	8.0	14	3.6	Baltimore, MD		
47,414	15	1.99	16	2.20	27	981.20	30	926.20	536.7	25.4	3.7	3.6	4.7	9.9	34	6.2	Birmingham, AL		
50,850	35	1.71	34	1.88	38	897.20	37	863.40	292.8	13.6	2.7	2.5	4.6	9.7	32	7.0	Boise, ID		
68,620	20	1.93	14	2.23	7	1,378.40	7	1,358.60	2,520.3	119.8	4.6	3.9	4.8	8.4	19	3.8	Boston, MA-NH		
45,711	45	1.52	44	1.69	52	717.80	52	707.20	587.3	35.3	4.6	4.5	6.0	8.6	20	4.0	Buffalo, NY		
54,037	56	1.28	56	1.36	53	707.80	53	682.80	853.8	60.8	5.0	4.8	7.1	12.4	56	7.4	Charlotte, NC-SC		
59,988	44	1.52	49	1.55	32	943.00	39	853.90	4,960.4	349.9	4.5	5.0	7.1	10.6	43	6.1	Chicago, IL-IN-WI		
53,415	40	1.58	39	1.76	41	868.40	38	855.70	1,135.9	72.1	5.2	5.0	6.3	10.3	37	5.1	Cincinnati, OH-KY-IN		
49,144	52	1.39	55	1.40	54	704.40	56	636.80	1,102.3	81.2	5.6	6.0	7.4	9.3	29	3.7	Cleveland, OH		
48,416	39	1.59	42	1.72	50	793.60	50	759.70	373.9	25.9	6.0	5.4	6.9	9.3	28	3.3	Columbia, SC		
52,836	47	1.50	46	1.64	46	819.40	46	793.30	983.1	60.5	4.8	4.8	6.2	9.3	27	4.5	Columbus, OH		
56,231	50	1.47	48	1.61	43	853.60	43	831.60	3,179.3	163.4	4.9	4.2	5.1	8.3	17	3.4	Dallas-Fort Worth, TX		
47,150	59	1.08	59	1.14	59	521.00	59	507.10	429.6	32.4	5.9	5.8	7.5	12.2	55	6.3	Dayton, OH		
60,248	49	1.49	50	1.54	35	927.40	40	852.30	1,403.2	75.5	4.4	3.8	5.4	8.0	12	3.5	Denver, CO		
53,406	60	0.69	60	0.70	60	374.20	60	362.30	2,153.2	190.3	7.4	7.8	8.8	17.7	60	10.3	Detroit, MI		
44,977	57	1.27	57	1.36	58	586.40	58	568.10	320.7	21.8	6.2	5.5	6.8	10.5	40	4.3	Greenville, SC		
64,992	28	1.81	29	2.03	17	1,219.40	15	1,185.30	602.1	39.5	4.6	4.7	6.6	8.2	16	3.6	Hartford, CT		
54,483	33	1.73	31	2.00	29	974.40	26	979.20	2,807.2	140.8	5.0	4.3	5.0	8.4	18	3.4	Houston, TX		
54,190	48	1.50	47	1.63	45	835.20	45	807.10	917.5	50.7	4.4	4.0	5.5	8.7	21	4.3	Indianapolis, IN		
52,892	26	1.87	20	2.14	25	1,028.40	24	1,009.50	689.6	45.1	4.7	4.2	6.5	10.5	42	5.8	Jacksonville, FL		
54,530	42	1.56	40	1.75	40	879.40	36	867.40	1,046.9	65.3	5.2	5.0	6.2	8.9	24	3.7	Kansas City, MO-KS		
56,518	10	2.08	10	2.38	15	1,228.20	16	1,183.10	1,003.2	71.0	4.2	5.0	7.1	13.1	58	8.9	Las Vegas, NV		
58,265	8	2.13	11	2.36	10	1,296.20	11	1,212.90	6,603.9	499.8	4.7	5.0	7.6	11.7	49	7.1	Los Angeles, CA		
47,370	55	1.35	54	1.47	57	659.40	55	643.10	634.5	41.8	5.3	4.7	6.6	10.2	36	4.9	Louisville, KY-IN		
46,161	51	1.42	51	1.53	55	674.20	54	650.90	618.9	43.8	5.9	5.1	7.1	10.3	39	4.4	Memphis, TN-MS-AR		
49,643	21	1.93	25	2.10	26	996.60	29	932.30	2,885.9	183.7	3.8	4.2	6.4	10.8	45	7.0	Miami, FL		
53,227	53	1.37	53	1.47	51	748.40	51	724.50	794.2	41.9	5.0	5.2	5.3	9.4	30	4.4	Milwaukee, WI		
64,980	41	1.57	41	1.74	21	1,053.40	22	1,027.30	1,868.2	105.7	3.5	4.1	5.7	7.9	11	4.4	Minneapolis, MN-WI		
39,296	1	2.62	1	3.26	19	1,085.60	20	1,079.50	62.9	1.7	3.9	3.5	2.7	5.3	1	1.4	Morgantown, WV		
59,859	11	2.07	21	2.12	11	1,294.00	18	1,133.60	149.7	12.5	3.9	5.7	8.4	12.1	54	8.2	Naples, FL		
51,427	43	1.53	45	1.68	48	809.40	47	789.50	799.5	45.6	4.4	4.0	5.7	9.6	31	5.2	Nashville, TN		
47,305	19	1.97	2	2.95	31	967.40	13	1,194.30	528.5	24.9	4.5	3.6	4.7	7.4	9	2.9	New Orleans, LA		
62,336	16	1.97	18	2.19	12	1,279.40	10	1,214.00	9,507.9	535.5	4.5	4.5	5.6	9.1	26	4.6	New York, NY-NJ-PA		
45,695	25	1.88	19	2.14	39	893.60	35	872.30	565.5	21.4	3.9	4.2	3.8	5.9	2	2.0	Oklahoma City, OK		
51,194	31	1.78	32	1.96	33	942.40	33	903.90	1,135.5	71.8	3.3	4.1	6.3	11.0	46	7.7	Orlando, FL		
59,453	17	1.97	26	2.10	16	1,220.00	19	1,114.10	3,011.5	178.0	4.8	4.3	5.9	8.8	23	4.0	Philadelphia, PA-NJ-DE-MD		
55,045	27	1.83	27	2.08	22	1,046.80	23	1,025.10	2,097.5	106.0	3.4	3.2	5.1	8.7	22	5.3	Phoenix, AZ		
45,868	29	1.80	28	2.05	42	854.00	42	841.00	1,232.8	69.5	4.9	4.4	5.6	7.8	10	2.9	Pittsburgh, PA		
56,392	38	1.62	37	1.80	34	942.20	32	922.30	1,172.2	71.8	5.2	5.0	6.1	11.5	48	6.3	Portland, OR-WA		
54,268	13	2.03	9	2.40	18	1,149.20	17	1,147.80	710.3	60.2	5.5	5.3	8.5	12.7	57	7.3	Providence, RI-MA		
57,968	9	2.09	12	2.33	13	1,264.40	14	1,191.90	658.8	32.8	3.4	3.2	5.0	8.0	13	4.6	Richmond, VA		
56,345	3	2.40	4	2.78	6	1,420.60	8	1,353.30	1,818.3	166.5	5.2	6.4	9.2	14.3	59	9.1	Riverside, CA		
59,887	4	2.37	6	2.63	5	1,491.40	6	1,368.90	1,077.3	79.8	4.6	5.4	7.4	11.8	52	7.3	Sacramento, CA		
52,873	37	1.65	36	1.83	36	900.20	34	876.10	1,438.4	103.7	5.3	5.6	7.2	9.9	33	4.5	St. Louis, MO-IL		
58,356	34	1.72	38	1.80	23	1,036.80	27	953.90	615.7	23.1	3.1	2.9	3.8	6.0	3	2.9	Salt Lake City, UT		
47,000	36	1.67	35	1.85	47	811.40	48	788.00	950.2	47.3	4.8	4.1	5.0	7.1	7	2.3	San Antonio, TX		
62,468	2	2.46	3	2.83	3	1,611.20	2	1,520.70	1,579.5	101.5	4.1	4.8	6.4	10.3	38	6.1	San Diego, CA		
75,759	12	2.05	22	2.12	2	1,620.20	4	1,432.70	2,278.7	142.0	4.3	4.7	6.2	10.5	41	6.2	San Francisco, CA		
87,732	46	1.51	43	1.71	8	1,361.20	5	1,369.90	904.5	59.4	4.5	5.0	6.6	11.8	50	7.2	San Jose, CA		
50,619	18	1.97	17	2.19	23	1,036.80	25	986.10	334.0	24.4	3.2	4.6	7.3	11.8	51	8.6	Sarasota, FL		
48,899	22	1.91	24	2.11	30	969.60	31	922.60	183.1	10.7	4.1	3.9	5.8	10.0	35	5.9	Savannah, GA		
63,787	24	1.89	23	2.11	14	1,252.00	12	1,203.50	1,856.4	92.1	4.3	3.7	5.0	8.9	25	4.6	Seattle, WA		
48,550	30	1.78	33	1.94	37	897.60	41	849.30	334.4	18.9	4.2	3.9	5.7	8.1	15	3.9	Syracuse, NY		
47,008	14	2.00	13	2.24	28	978.60	28	935.60	1,368.2	95.0	3.5	4.5	6.9	11.3	47	7.8	Tampa, FL		
46,058	32	1.77	30	2.00	44	842.60	44	828.60	438.2	16.7	3.8	4.0	3.8	6.8	5	3.0	Tulsa, OK		
55,450	6	2.27	7	2.61	9	1,315.80	9	1,260.40	851.8	41.1	3.4	3.4	4.8	7.0	6	3.6	Virginia Beach, VA-NC		
83,427	5	2.32	5	2.75	1	2,028.20	1	1,983.60	3,054.6	123.7	3.3	3.1	4.0	6.2	4	2.9	Washington, DC-VA-MD-WV		
<b>55,243</b>		<b>1.76</b>		<b>1.97</b>		<b>1,017.35</b>		<b>979.93</b>	<b>1,454.1</b>	<b>88.8</b>	<b>4.5</b>	<b>4.5</b>	<b>6.0</b>	<b>9.7</b>		<b>5.1</b>	<b>Average</b>		

Data is based upon Combined Metropolitan Statistical Areas (CMSA)

## MEXICO

Continued from Page 25

a strong cash culture has been created. The challenge for the real estate markets will be absorbing the new inventory.

For additional information, please see Mr. Franck Terrazas' article "Mexico in Time of Crisis: The Impact of GM's Bankruptcy on Mexico's Industrial Real Estate and Economy" published in the *RICS Property World Fall Edition* (<http://www.ricsamericas.org/property-world>).

## CANADA

Continued from Page 25

**TABLE 37**

		Q3 2008	Q1 2009	Q3 2009
Office AA	Value per SF	\$372	\$325	\$323
Tier 1 Regional S/C	ICSC C.R.U. Sales/SF	\$540	\$543	n.a.
Single-Tenant Industrial	Value per SF	\$95	\$82	\$84
Suburban Multifamily	Value per Apartment	\$118,051	\$107,749	\$117,976

Canadian currency

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property types and cities, property values were perceived by survey respondents as follows:

Investors are looking to the future with prudent optimism. In Q3 2009, some 70% of investors surveyed expected higher or stable values going forward over the next year (15% rise, 55% stable). This optimism is similar to attitudes a year ago, when it was as high as 72% (9% and 63% respectively), but better than during the depths of the recession when it bottomed out at 29% (4% and 25% respectively).

## GAMING SECTOR

Continued from Page 26

revenues and heavy forward refinancing demands, lenders are not likely to "bet on the come" for a new resort casino.

## TRIBAL GAMING

These are also bad times for the Foxwoods Tribes in New Haven. The debt structure is \$2.3 billion, and they are in the midst of restructuring. The debt is reported to be \$1 billion more than the tribe can sustain, and is in risk of default. Foxwoods laid off 800 casino workers since last summer as a result of declining slot revenue. Mohegan Sun has cut 500 jobs. The casinos turn over 25% of their profit to the state, which minimizes the odds on a successful restructuring plan.

## MACAU

Macau casinos revenue has also taken a hit. It has fallen 12% from 25.62 billion Patacas (\$3.7 billion) to 2.4% quarter over quarter. Many blame the Chinese Government who lowered the number of visas allowing visitors in from mainland China. In reality, the gaming industry worldwide is merely showing the painful signs of wealth declines worldwide.

## DEMOGRAPHIC & ECONOMIC TRENDS

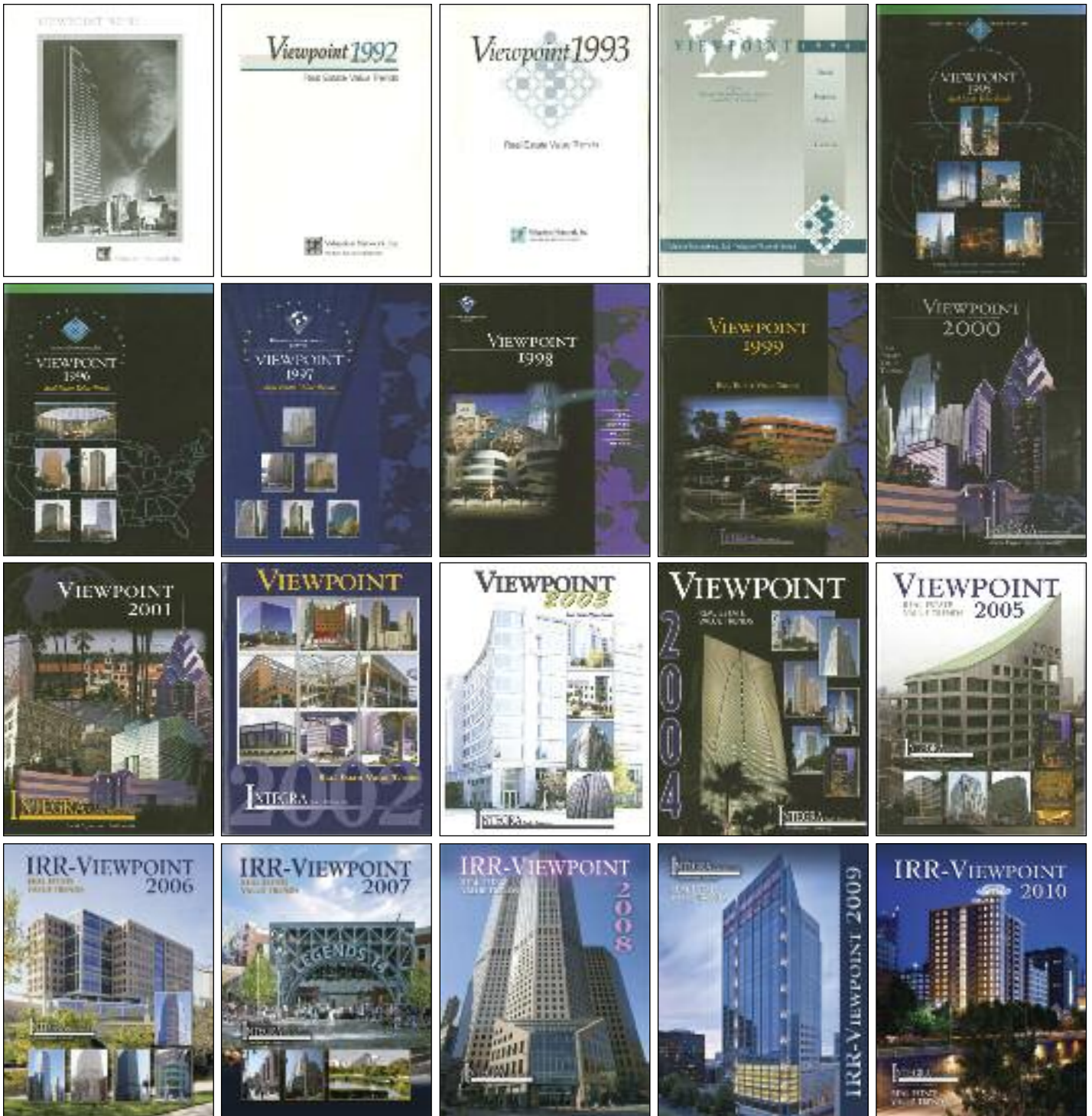
Continued from Page 29

date, the echo boomers. Children of the heralded baby boomers, the echo boomers make up almost a third of the U.S. population. Born between the late 1970s and early 1990s, the echo boomers are entering their peak household formation years. This influx of young households will reverse the declines in young households witnessed over the past decade, according to the Joint Center for Housing Studies of Harvard University's "The State of the Nation's Housing 2009." Thanks to the recent recession, however, these newly formed households will likely have lower real incomes than new households from the previous decade. As demonstrated by Figure 35 on page 29, 2007 real incomes were lower than real incomes in 2000 for all age groups except those aged 55-64.

With echo boomer households starting with lower real incomes in an economy experiencing unemployment at a 26 year high, IRR anticipates that apartments and lower cost entry level homes will likely appeal to a larger portion of the market than in prior years, while higher priced housing targeted at young buyers will continue to experience difficult conditions.

Though the ability of the broader commercial real estate markets to rebound is undetermined, the recent tumult will undoubtedly offer many opportunities for those who rely on sound examination of market fundamentals and creative approaches to overcoming obstacles. The re-urbanization of many U.S. communities and the evolving impact of the newest generation of households are just two of many demographic and economic shifts that market participants will be watching.

# CELEBRATING 20 YEARS OF VIEWPOINT



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