

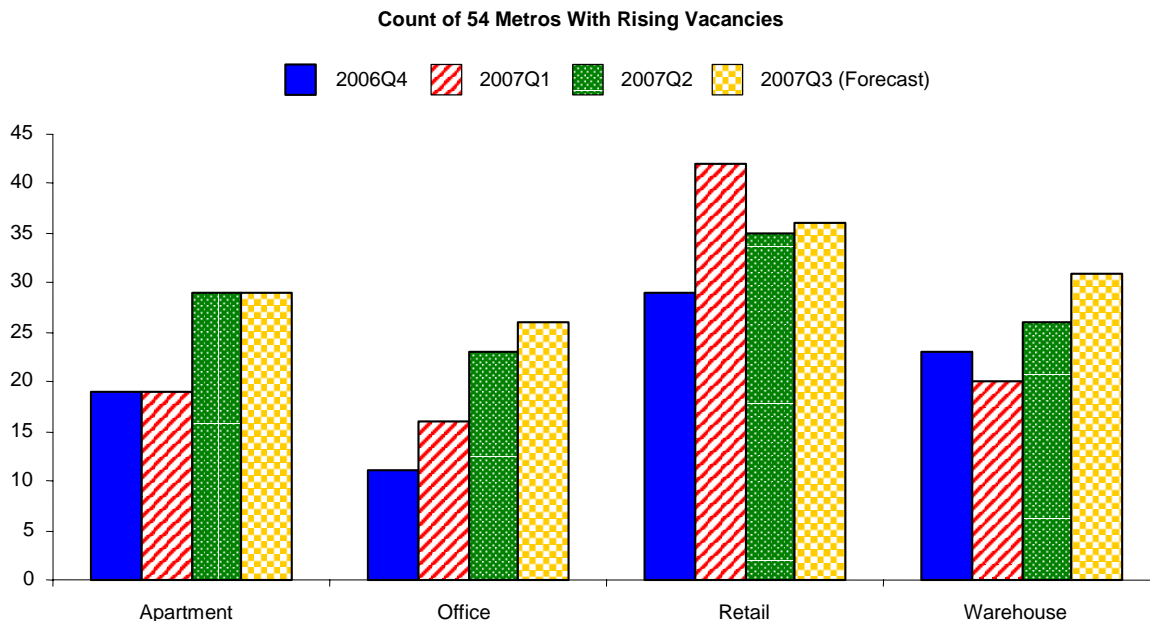
**FOR IMMEDIATE RELEASE (July 31, 2007)**

**Press Release — PPR Releases Second Quarter 2007 Forecasts!**

**Approaching a Turning Point?**

While the second quarter brought little change to national vacancy rates, the individual markets are shifting, and this flat top-line rate masks the turning point occurring in many cities. In the second quarter, the apartment and warehouse vacancy rates for the PPR54 (the aggregate of the largest 54 markets PPR covers and a proxy for the national average) were flat, at 5.8% and 8.6%, respectively. Retail economic vacancies continued to trend higher, rising from 10% in the first quarter to 10.2% at mid-year. And in the office market, vacancy rates continued to decline, but at just half the rate of the previous two quarters, falling 10 basis points to 14.8%.

But this rather sanguine national trend masks the opposing undercurrents in many cities. The chart below shows the number of cities in which vacancy rates increased during the four-quarter period beginning in 2006Q4.



Source: PPR

Across the property types, retail markets turned the corner first and have the highest number of markets with rising vacancy rates. Nationally, while retail sales have slowed, retail construction continues to forge ahead. With the highest vacancy rate increase in the second quarter, Austin,

Jacksonville, Phoenix, and San Antonio all have currently very strong supply growth. Alternatively, Raleigh, Houston, and San Francisco saw economic vacancies come in by at least 30 basis points in the quarter, as retail demand is holding up and construction completions were low.

The number of apartment markets facing rising vacancy rates surged from 19 in the fourth and first quarters to 29 in the second quarter. Those feeling the fallout from the condo boom saw the biggest rise. Orlando topped the list, as vacancies shot up nearly a full percentage point from 4.3% in the first quarter to 5.2% in the second. Tampa, West Palm Beach, the East Bay, Las Vegas, and Phoenix all suffered the same fate. But on the other hand, some apartment markets are still improving, including Denver, Columbus, and Portland. None of these markets had many condo conversions, demand remains healthy, and most importantly, supply levels remain low (at least for now).

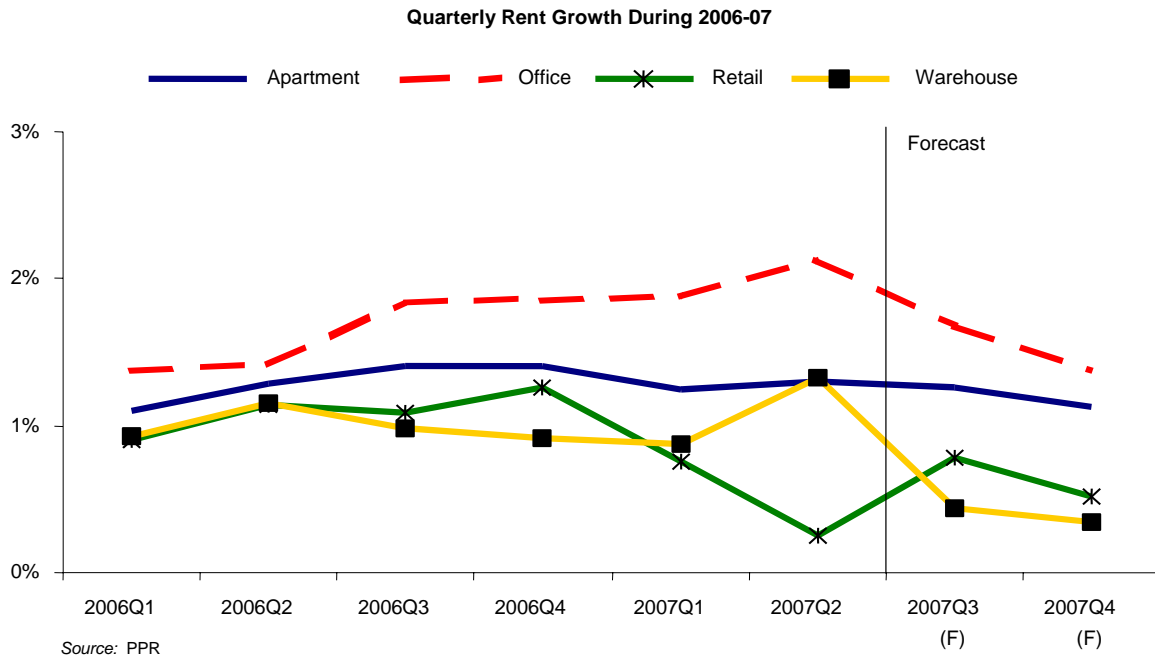
The number of office markets with rising vacancy rates has steadily increased, but office still has the lowest number of markets with rising vacancies of all the property types. As recently as the fourth quarter of 2006, most office markets (43) still had tightening vacancy rates, but the tables are turning and in the second quarter, nearly half of the markets (23) saw vacancy rates rise. The weakening housing market is also leading some office markets to falter in a big way. Orange County, the poster child for the weakening mortgage industry, saw vacancy rates skyrocket from 12% in the first quarter to 13.8% in the second! Other markets with rapid vacancy rate increases in the second quarter include Baltimore (a construction-related surge), and the Inland Empire, Orlando, and Phoenix (all propelled by the mortgage fallout leading to weaker demand). But many office markets are still improving, masking the unraveling of others and keeping the national vacancy trend down. San Jose, Boston, Houston, and San Francisco all continued to have big vacancy declines in the second quarter. The common thread of these markets: healthy demand and modest construction (again, for now).

More than half of the warehouse markets saw vacancy rates increase in the second quarter, and vacancies are expected to rise in even more markets in the third quarter. Many major national distribution hubs were on the right side of the scale in the second quarter, as vacancy rates declined in Memphis, Dallas – Fort Worth, the Inland Empire, Indianapolis, and Los Angeles. However, other major distribution hubs tipped the scales in the other direction, as Chicago and East Coast distribution hubs Atlanta and North – Central New Jersey saw vacancy rates increase. Demand continued to moderate in the second quarter, but of all the property types, warehouse is mainly a supply game. Vacancies are rising the fastest mostly in markets with too much new construction rather than a steep fall-off in demand.

### **Rent Growth Is Peaking, or Past Peak**

The end of vacancy declines in markets is putting the kibosh on accelerating rent growth. In the office market, quarterly rent growth of 2.1% in the second quarter will top out the cycle, and it is expected to drop off to 1.7% in the third quarter. Retail rent growth already peaked back in the fourth quarter of 2006. Quarterly rent growth in the warehouse and apartment markets is

peaking in the second quarter too, both at 1.3%. The chart below shows quarterly rent growth during 2006–07. The strongest gains are happening now.



As with vacancies, there will be differences among markets. Some of the best examples of markets with stronger rent growth in store are Denver and San Francisco apartment, Nashville and Denver office, Kansas City and Minneapolis retail, and San Antonio and Memphis warehouse.

On a national level, moderate conditions are expected in the commercial real estate markets. However, markets will differ greatly, and PPR can help you decide what markets are right for your strategy!