



**FOR IMMEDIATE RELEASE**

**Demand Went Out Like a Lamb in 2007 —  
But Most Property Types Look Even Worse for 2008**

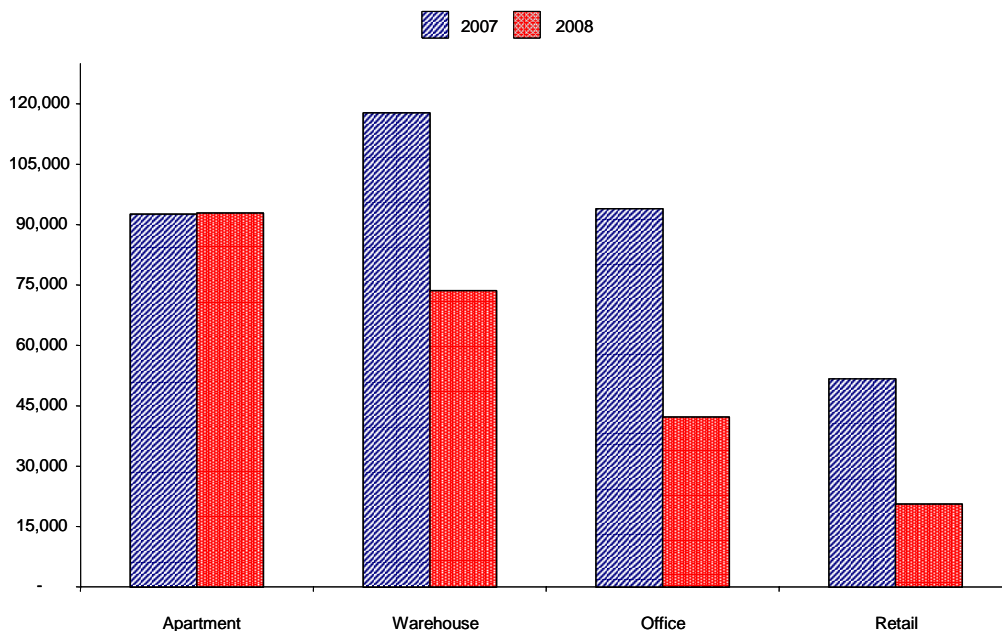
**Boston, MA, January 30, 2008** — The U.S. economy headed into 2007 at near full speed but exited the year dragging its feet. In the property type markets, this suggests that any leftover momentum from the recent economic expansion has dried up and that 2008 will be a rough year. Vacancies will rise in all four major property types, and the main culprit is reduced demand (except for apartments).

The decrease in demand across the PPR54 (the largest 54 metros in the U.S. and PPR's proxy for the national average) was already evident in 2007 office data. During the first two quarters of 2007, office net absorption was a decent 50 million SF, though this was well off the mark set in the second half of 2006 (68.5 million SF). In the latter two quarters of '07, the steady demand slide continued, as net absorption dipped to 44.2 million SF. But forecast net absorption for 2008 will not be a dip so much as a drop. Exhibit 1 shows the annual change in office demand for the PPR54 in 2007 and 2008 (as well as the demand change for each of the other major property types). The data reveals that absorption for the entire year in '08 will reach just 42.2 million SF, 55% lower than 2007 levels!

And it is a similar story with retail and warehouse. The warehouse market (the least volatile of the four property types) will not get hit quite as hard on the way down, though absorption will still endure a 37.5% decline in 2008 from a year ago. Retailers, on the other hand, will get hit the hardest. Consumers are feeling the pinch, and in 2008 retail demand will drop 60% from last year's mark!

Apartment is the only property where demand is holding its ground, largely due to negative factors in the larger economy. Home prices are expected to fall even further in 2008, while foreclosures continue to mount. Rising foreclosures will send former homeowners back to the rental market, while falling home prices will keep would-be buyers right where they are (renting!). Overall, this translates into net absorption just shy of 93,000 units in 2008, while it reached 92,500 units in '07.

**Exhibit 1: Annual Change in Demand 2007-2008**

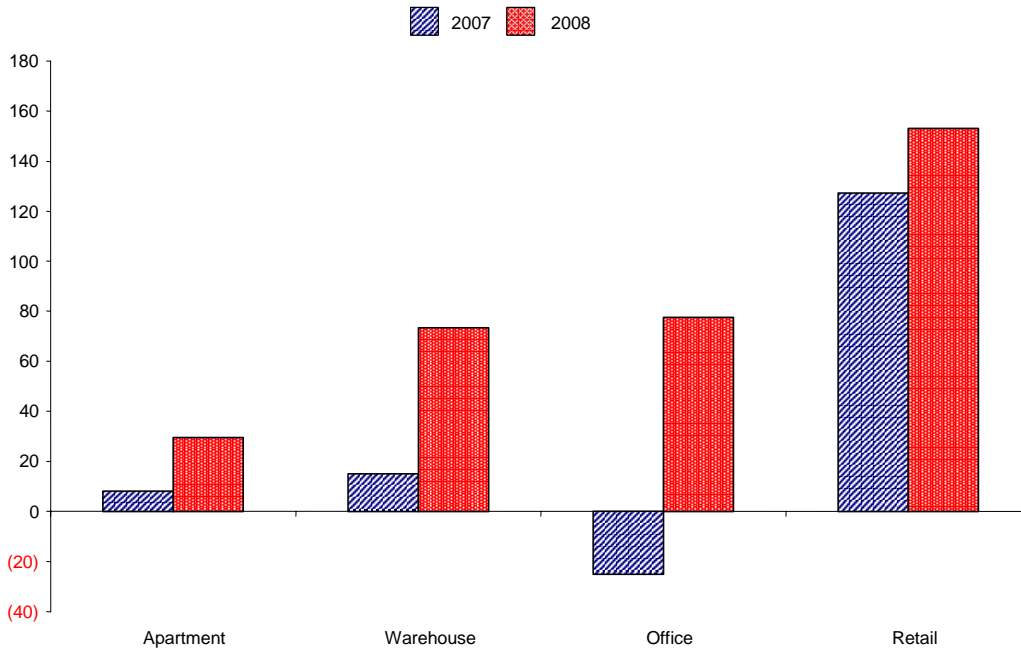


Source:PPR

## Rising vacancies will hit the four major property types ...

During 2007, all property types except office saw an increase in vacancy rates. While apartment (10 basis points) and warehouse (20 basis points) had slight increases, retail took it on the chin with by far the largest increase (1.3 percentage points). Office properties bucked the trend and actually saw vacancies snipped by 20 basis points. But none of the four major property types will emerge unscathed at the end of 2008 (see Exhibit 2). Apartment will be the least damaged, with a 30-basis-point increase (thanks to still healthy demand). But both office and warehouse will see a significant jump in vacancies at 80 and 70 basis points, respectively. Fueled by the consumer-led slowdown, the retail market will get whacked again, enduring a 1.5-percentage-point increase in vacancy rates in 2008. That's almost three percentage points in two years!

Exhibit 2: Annual Basis Point Change in Vacancies



Source:PPR

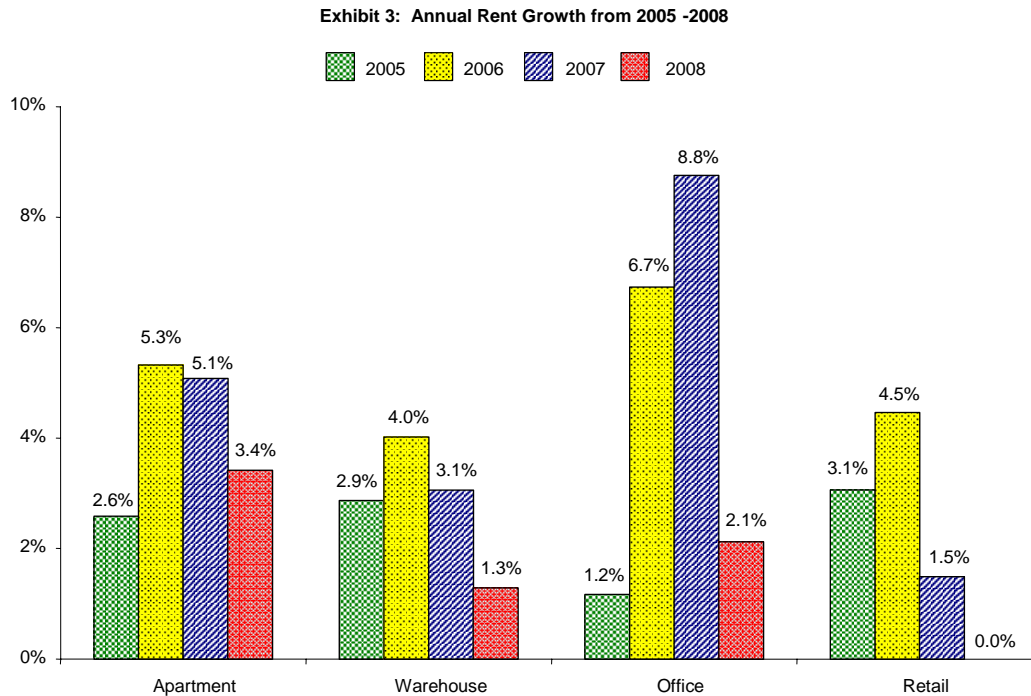
While hefty new supply will hamper apartment markets in Austin, Charlotte, and Orlando, metros like Indianapolis, San Francisco, and San Jose will see vacancies decrease at least 50 basis points in 2008. There may be room for optimism in some apartment markets, but there is little for retail. All metros except Oklahoma City will see economic vacancies rise this year. Las Vegas, Houston, and Phoenix will fare the worst, with each suffering increases of over 3.5 percentage points. The biggest losers in the office market will all suffer from a glut of new supply, as landlords in Austin, the Inland Empire, and Phoenix will watch vacancies skyrocket at least 2.5 percentage points. However, Atlanta and Nashville have reason to celebrate, as both their vacancy rates will sink by more than one percentage point. 2008 will not be kind to the Texas warehouse market, as Dallas-Fort Worth, Austin, and San Antonio will all see at least a two-percentage-point increase in vacancies.

## Rent gains will vary by property type, but each is facing slower growth in '08 ...

This cycle has clearly run its course and landlords will no longer have carte blanche to push rents (see Exhibit 3 for 2008 expected rent gains by property type). Shopping centers in

particular will lose the most leverage as rents flatten this year in response to a beleaguered U.S. consumer. The apartment sector will see the most stability among fundamentals in the near term (again, mostly due to negative factors in the larger economy), and consequently, rents will jump by over 3% this year.

Of the four property types that PPR tracks, office and warehouse will place second and third, respectively, for rent growth in 2008. Office, which typically sees more rent volatility, is benefiting from occupancy gains over the past year. Likewise, warehouse properties had a good run as rental growth outpaced inflation in recent years, but slowing retail sales and trade (i.e., warehouse demand) are putting an end to that.



Source:PPR

Though this is quite a dismal outlook (and this is still assuming we skirt a recession!), there are winners among the various U.S. markets. Market selection is the key to surviving and thriving in a changing economic climate! PPR can help you determine the best markets for your strategy for the upcoming year and over the next five years for all markets and all property types.