

**UNITED STATES**

260 Franklin Street, 17<sup>th</sup> Floor  
Boston, MA 02110

Tel: 617 426-4446  
Fax: 617 426-4443

**UNITED KINGDOM**

Thavies Inn House  
3-4 Holborn Circus 6th Floor  
London EC1N 2HA

Tel: +44 (0)20 3139 2750  
Fax: +44 (0)20 3139 2770

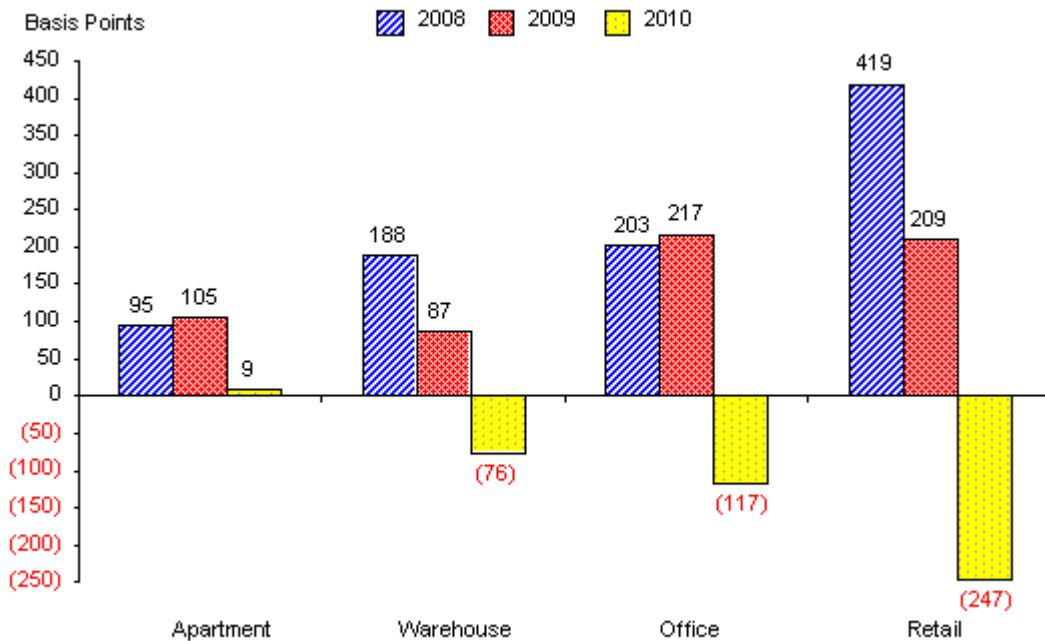
**FOR IMMEDIATE RELEASE**

**Boston, MA (October 29, 2008)** - Real estate is being battered by the falling economy and credit crisis. While the economy is suppressing demand, real estate values are also being blown back by broken credit markets. The result is an ugly picture across property types and in most cities, but take heart - the current burn will (eventually) yield renewed growth.

**Fundamentals Outlook Deteriorating**

The pessimistic attitude currently gripping the commercial real estate markets shows no signs of abating as we head into 2009. Though some metros will experience pain due to overbuilding, plummeting demand will be the primary cause of market turmoil. Tenancy losses are expected to intensify in the coming year while construction activity moderates. In each case, the end result of the supply/demand imbalance is soaring market vacancies (*see Exhibit 1*).

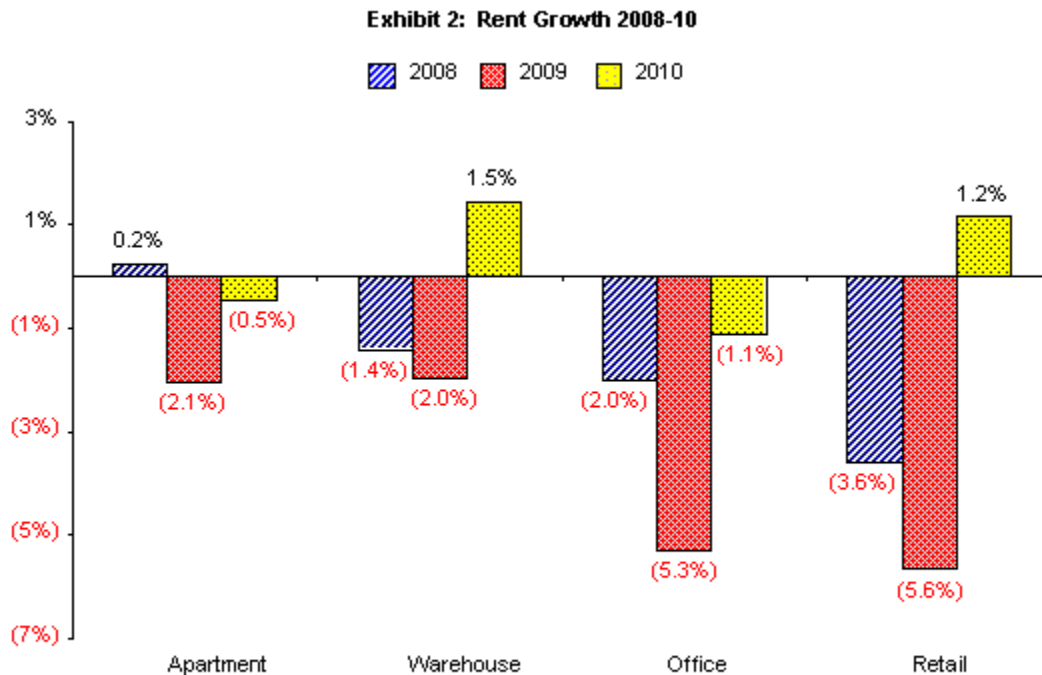
**Exhibit 1: Annual Change in Vacancies by Property Type**



Source: PPR

By the end of 2008, unfavorable fundamentals will culminate in cumulative net rent losses in all property types except apartment. Not surprisingly, given the dismal demand outlook, retail landlords are being hit the hardest on rent in 2008, with projected losses of 3.6% by year's end (*see Exhibit 2*). Even in the apartment market, where year-end rent growth will

remain positive, concessions are rising to the point where landlords will face diminishing effective rents. In 2009, the outlook will be even more pressing for all landlords. Apartment and warehouse properties will suffer 2% rent losses for the year, while rent losses in the office and retail sectors will exceed 5%.



Source: PPR

At the market level, the largest peak-to-trough rent losses will generally be logged in housing-bust markets, especially in Florida - where office construction was nearly as heated as condo construction - but also in financial hubs. Indeed, the New York office market, where rents in prime Manhattan towers crossed well over \$100/SF, has the dubious distinction of posting the largest percentage loss in rents in all 54 markets in any of the four property types.

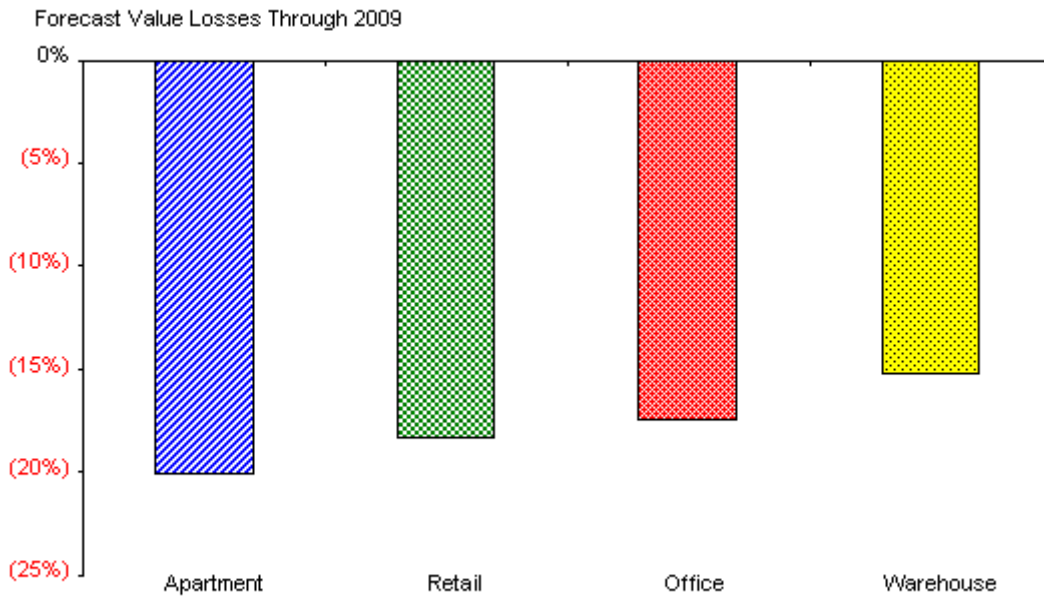
The markets are forecast to pull out of this vicious cycle in 2010. By that time, the economy will have commenced a recovery, and demand will become strong enough to overtake new supply and reduce market vacancies. Warehouse and retail will lead the commercial real estate market out of its rent slide in 2010, each posting rent gains of greater than 1%, while apartment and office landlords will need to wait until 2011 to push rent gains.

### Capital Value Losses Will Cut Deep

In addition to a worsening fundamentals outlook, commercial real estate values are being further eroded by turmoil in the capital markets. These two forces will work in concert to batter values in the coming year. By the end of 2009, values will drop 15%-20% from fourth quarter 2007 levels (see Exhibit 3).

A 2010 recovery in market fundamentals and improved liquidity in the credit markets should finally spur value appreciation by early 2011. However, there will be large differences in both the timing and magnitude of the value drop and recovery across the 54 markets that PPR tracks - there always are!

### Exhibit 3: Value Losses



Source: PPR