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National Office Report

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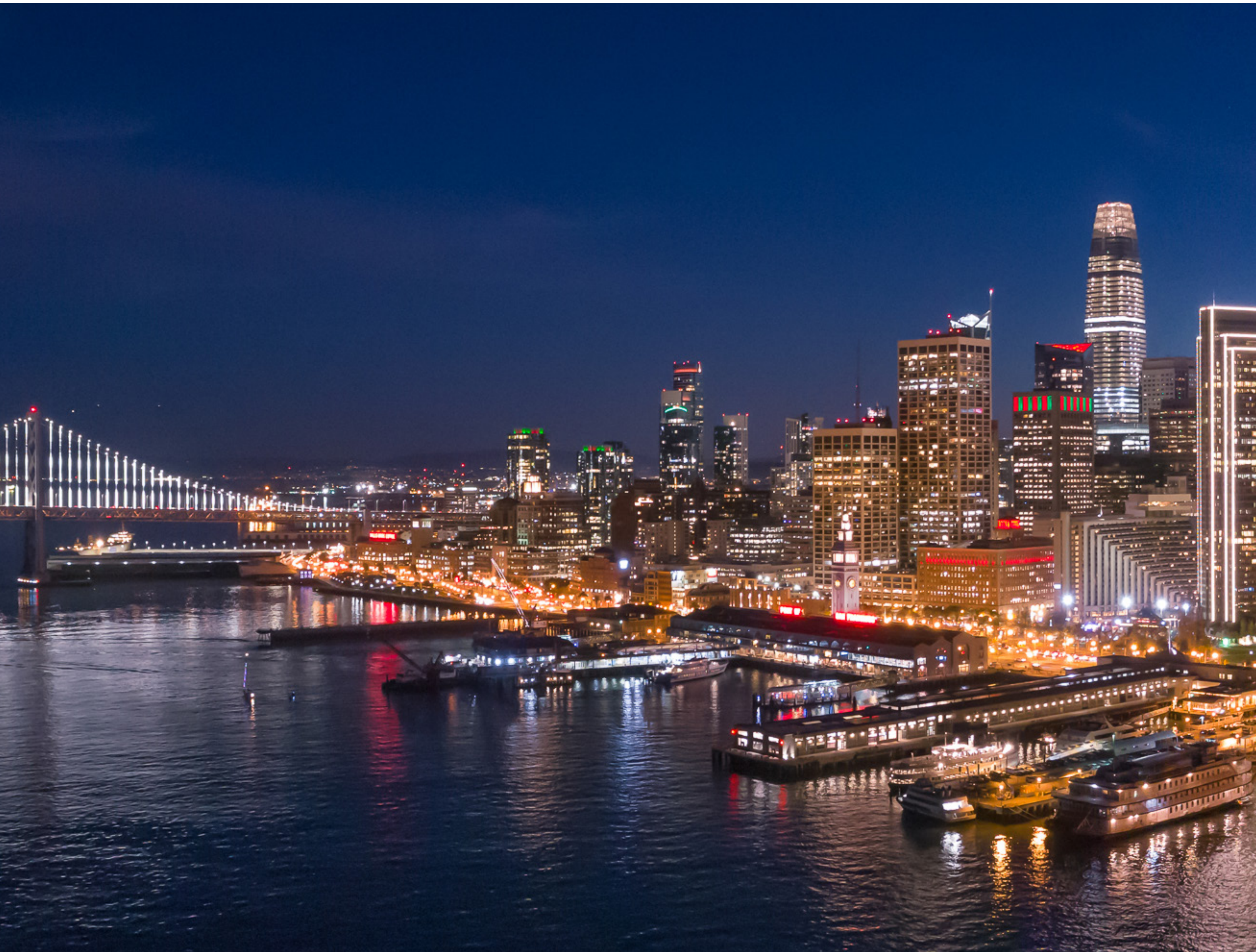

U.S. Office Property: San Francisco Remains Hot

- Average U.S. office asking rates increased 1.1% year-over-year in July, as the sector's moderate growth continues. Of the top 23 markets surveyed, growth was positive in 16, and five saw listing rates drop by more than a fraction. With office-using jobs growing at 1.7% over the last 12 months nationally, demand for office space remains healthy.

- San Francisco (31.3% year-over-year) and Tampa (22.8%) once again lead metros in average listing rate growth. The two metros were also in the top three for same-store listing rate growth, 11.1% for San Fransisco and 5.6% for Tampa, with Brooklyn (9.1%) coming in second. Job growth nationally has dipped slightly this year to 170,000 per month, but with the technology industry maintaining its luster, San Francisco's office-using employment gains have not slowed at all. The metro added 24,900 new office-using jobs in the 12 months through mid-year, up a whopping 5.0%. Only Dallas, at 34,200, added more office-using jobs during that time. New York added only 9,800 office-using jobs, up 0.5%, and the city's finance industry shrank slightly (-0.4%).

- Nationally, office-using jobs grew at a 1.7% rate year-over-year through July. Most of the growth came from the professional business services segment, led by computer design services. Information jobs were down slightly, led by losses in the telecommunications industry.

- Late-cycle construction remains robust, with 174.0 million square feet of space under construction as of July. That will represent a 2.8% growth in inventory when delivered. Manhattan (24.2 million square feet), Boston (11.5 million) and San Francisco (10.9 million) lead in the amount of space under construction. On a percentage basis, the amount under construction is led by Brooklyn (14.4%), Nashville (9.9%) and Austin (9.4%).

- Volatility in the capital markets have yet to have an impact on demand for office space. The yield of the two-year Treasury bond recently went higher than the yield of the 10-year Treasury; such inversions in the past have signaled a recession in nine to 15 months. Economic growth has been running at an annualized rate of about 2.5%, and fundamentals such as employment and consumer spending remain healthy, so a recession does not appear to be on the immediate horizon.