

CONTENTS

PAGE	
3	Economic Forecast
4	Commercial Forecast
8	Industrial
10	Retail
12	Multi-Family
14	Metro Area Summary



Slow economic growth is lowering demand for commercial space, mostly in office and industrial sectors

OVERVIEW

The general slowdown in the U.S. economy has begun to have an impact on commercial real estate markets. After posting a record \$427.2 billion in commercial transactions in 2007, it should come as no surprise that investment in commercial properties is well off the pace of last year. Indeed, tight credit availability has significantly slowed the volume of commercial real estate transactions. For the first four months of 2008, investment in commercial real estate totalled \$48.2 billion – a 69.5 percent decrease from the level posted January-April 2007. Vacancies are up, albeit modestly. But conditions vary across different areas of the U.S. And while individual investors have been relatively reticent, institutional and foreign investors remain active in the market.

The slowdown in commercial activity was expected. Commercial activity follows economic activity, and the downturn in the economy which began in late 2007 has yet to end. Add to that the turmoil in financial markets resulting from the subprime mortgage meltdown, continued rising oil prices and job creation in negative territory since the beginning of the year, and it is no wonder that activity in the commercial sector has eased.

NAR FORECAST: Investment in commercial real estate will likely remain well below levels of the last two years. Still, despite the slowdown, the commercial market is still in better shape compared to the 2001 recession.

The Office Sector: Vacancy rates up in most primary markets

With job creation—especially in the office-using sector—slow or negative, and additional inventory having been added to most markets, the office vacancy rate has edged up. Many tenants, some of whom have had to downsize, are opting to renew leases at current locations rather than relocate to new, larger space.

NAR FORECAST: Vacancy rates will likely increase to 13.7 percent in the fourth quarter of this year. As the economy recovers and job creation turns positive, existing inventory and new supply which is on track to come on market will be absorbed, and vacancies will settle back down.

The Industrial Market: Despite falling demand, vacancy remains in single digits

While demand for warehouse space has weakened due to slowing economic conditions, the demand for light manufacturing space has actually risen. The falling U.S. Dollar makes U.S. goods more attractive overseas, and thus exports are picking up. Investment in industrial space is down, but secondary and tertiary markets are still drawing investors and users.

MARKET SECTOR

▲	Office Vacancy
▼	Office Net Absorption
▲	Office New Completions
▼	Office Rent Growth
▲	Industrial Vacancy
▲	Industrial Net Absorption
▲	Industrial New Completions
◀▶	Industrial Rent Growth
▼	Retail Vacancy
▲	Retail Net Absorption
▲	Retail New Completions
▼	Retail Rent Growth
▼	Multi-Family Vacancy
▲	Multi-Family Net Absorption
▼	Multi-Family New Completions
▲	Multi-Family Rent Growth

Fuel costs – as well as other operation expenses – driving slowdown in some commercial sectors

COMMERCIAL LEADING INDICATOR (CLI)

FOURTH QUARTER COMMERCIAL REAL ESTATE INDEX CONTRACTS

WASHINGTON (May 21, 2008) – Although fundamentals are sound, activity in commercial real estate markets is expected to ease in the months ahead, according to a forward-looking index for the commercial real estate sectors published by the National Association of Realtors®.

The Commercial Leading Indicator for Brokerage Activity¹ edged down 0.7 percent to an index of 119.0 in the first quarter from a downwardly revised reading of 119.9 in the fourth quarter, and is 0.8 percent below the first quarter of 2007 when it stood at 120.0.

This is the third consecutive quarterly dip since reaching a record of 120.5 in the second quarter of 2007. Before that, the index showed generally positive expansion from the middle of 2003; NAR's track of the index dates back to 1990.

Lawrence Yun, NAR chief economist, expects diminished business opportunities for commercial real estate practitioners in the months ahead.

(continued on page 5)

NAR FORECAST: Rising exports are a healthy sign for industrial markets. But demand for such space by both users and investors is likely to be tempered by increasing costs of fuel to deliver those goods from warehouses to shipping centers.

The Retail Market: New retail space construction is down from previous years

Vacancies are up and rent growth down in retail markets – even in Southern California, usually a hotbed of retail real estate activity. The housing downturn hit this area particularly hard as homeowners cannot “tap” into home equity as much as during the heyday of the housing boom. With increased costs for most consumer goods (again, driven by the cost of oil), as well as the lowest consumer confidence in decades, retail spending is weak compared to last year.

NAR FORECAST: Relatively low inflation, and readily available consumer credit helped fuel the retail market boom in prior years. Now consumers are holding back their spending. Consequently, construction of retail space has slowed, which will help keep vacancy at a slow uptick – to 9.3 percent by the fourth quarter, while rent growth is expected to rise a mere 1.3 percent for the year.

The Multi-Family Market: Could experience less demand in the wake of a housing recovery

Rent growth in the multi-family sector has been relatively steady, due in large part to potential home buyers waiting for home prices to bottom out before jumping into homeownership. But investment in multi-family properties is down compared to this time last year -- \$13.7 billion worth of transactions vs. \$23.2 billion in the first four months of 2007.

NAR FORECAST: The hoped-for housing recovery could push up multi-family vacancy rates to 5.7 percent by the fourth quarter of this year. Rent growth will still be positive at 4.0 percent in 2008, compared to 3.1 percent last year.

CLI: Commercial real estate activity slowing down

NAR's Commercial Leading Indicator (CLI) points to a slowdown in commercial real estate activity. The CLI declined in the last quarter, indicating that there will likely be a decline in real estate transaction activity.

JUNE 2008 ECONOMIC FORECAST

<i>Major Indicators</i>	<i>2007 IV</i>	<i>2008 I</i>	<i>2008 II</i>	<i>2008 III</i>	<i>2008 IV</i>	<i>2009 I</i>	<i>2009 II</i>	<i>2009 III</i>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Real GDP Annual Percentage Growth Rate	0.6	0.9	1.1	2.1	2.0	2.2	1.9	2.3	2.2	1.7	2.0
Non-Farm Employment Annual Percentage Growth Rate	0.8	(0.3)	(0.4)	0.7	1.1	1.1	0.7	0.7	1.1	0.3	0.8
Consumer Prices Annual Percentage Growth Rate	5.0	4.3	3.5	1.3	2.6	2.8	2.1	2.4	2.9	3.6	2.4
Real Disposable Income Annual Percentage Growth Rate	0.9	1.8	(0.2)	2.0	2.0	3.6	2.7	2.5	3.1	1.4	2.5
Consumer Confidence Index	91	77	60	62	63	66	70	71	103	66	70
Unemployment Percent	4.8	4.9	5.3	5.4	5.5	5.5	5.6	5.6	4.6	5.3	5.6
<i>Interest Rates (%)</i>	<i>2007 IV</i>	<i>2008 I</i>	<i>2008 II</i>	<i>2008 III</i>	<i>2008 IV</i>	<i>2009 I</i>	<i>2009 II</i>	<i>2009 III</i>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Fed Funds Rate	4.5	3.2	2.1	2.0	2.0	2.3	2.8	3.3	5.0	2.3	2.9
3-Month T-Bill Rate	3.4	2.0	1.9	1.9	2.0	2.3	2.8	3.2	4.4	2.0	2.9
Prime Rate	7.5	6.2	5.1	5.0	5.0	5.3	5.8	6.3	8.1	5.3	5.9
Corporate Aaa Bond Yield	5.5	5.5	5.1	5.3	5.4	5.4	5.5	5.5	5.6	5.3	5.5
10-Year Gov't Bond	4.3	3.7	3.8	4.1	4.2	4.2	4.3	4.3	4.6	3.9	4.3
30-Year Gov't Bond	4.6	4.4	4.2	4.4	4.5	4.5	4.6	4.7	4.8	4.4	4.6

Source: NAR

OFFICE	2007 III	2007 IV	2008 I	2008 II	2008 III	2008 IV	2009 I	<u>2006</u>	<u>2007</u>	<u>2008</u>
Vacancy Rate	12.5%	12.5%	12.9%	13.3%	13.5%	13.7%	13.8%	12.6%	12.5%	13.3%
Net Absorption ('000 sq. ft.)	15,210	15,322	3,869	8,911	9,495	8,990	9,983	81,183	57,265	38,530
Office Employment (thousands)	16,727	16,712	16,646	16,586	16,699	16,653	16,733	16,648	16,875	17,066
Completions ('000 sq. ft.)	17,047	19,795	16,306	26,754	19,938	14,922	16,328	51,606	61,102	74,412
Inventory (millions sq. ft.)	3,389	3,409	3,425	3,452	3,472	3,487	3,503	3,326	3,398	3,472
Rent Growth	3.5%	1.3%	1.0%	0.8%	0.6%	0.7%	0.7%	5.2%	8.0%	3.5%
INDUSTRIAL	2007 III	2007 IV	2008 I	2008 II	2008 III	2008 IV	2009 I	<u>2006</u>	<u>2007</u>	<u>2008</u>
Vacancy Rate	9.3%	9.4%	9.8%	9.9%	10.0%	9.9%	10.0%	9.4%	9.4%	9.6%
Net Absorption ('000 sq. ft.)	43,354	27,785	-12,524	28,245	26,677	26,417	30,036	205,365	120,231	134,662
Industrial Employment (thousands)	10,189	10,170	10,140	10,091	10,068	10,057	10,063	10,235	10,238	10,261
Completions ('000 sq. ft.)	40,858	49,353	39,436	43,367	43,835	19,815	34,143	173,979	126,765	174,041
Inventory (millions sq. ft.)	12,570	12,619	12,659	12,702	12,746	12,765	12,800	12,233	12,399	12,573
Rent Growth	0.8%	0.7%	0.2%	0.4%	0.4%	0.3%	0.3%	1.4%	3.6%	3.3%
RETAIL	2007 III	2007 IV	2008 I	2008 II	2008 III	2008 IV	2009 I	<u>2006</u>	<u>2007</u>	<u>2008</u>
Vacancy Rate	8.8%	9.2%	9.5%	9.7%	9.6%	9.3%	9.2%	8.0%	9.2%	8.8%
Net Absorption ('000 sq. ft.)	8,737	1,524	-639	5,904	6,484	6,446	6,510	10,526	11,081	24,760
Completions ('000 sq. ft.)	7,662	8,530	5,070	9,731	5,822	2,149	3,994	28,455	29,733	20,322
Inventory (millions sq. ft.)	1,583	1,592	1,597	1,606	1,612	1,614	1,618	1,550	1,580	1,600
Rent Growth	0.7%	0.7%	0.7%	0.2%	0.2%	0.2%	0.2%	3.9%	3.2%	1.4%

Source: NAR/TWR

MULTI-FAMILY	2007 III	2007 IV	2008 I	2008 II	2008 III	2008 IV	2009 I	2006	2007	2008
Vacancy Rate	4.4%	4.8%	5.5%	5.4%	5.3%	5.7%	5.7%	5.9%	5.4%	5.1%
Net Absorption (Units)	111,745	2,882	-52,603	63,860	69,590	-255	42,567	229,452	234,399	245,786
Completions (Units)	57,436	57,314	56,275	54,573	53,999	55,084	52,341	224,170	230,932	216,880
Inventory (Units in Millions)	14.0	14.0	14.1	14.1	14.2	14.2	14.3	13.8	14.0	14.2
Rent Growth	0.7%	0.9%	0.9%	1.0%	1.2%	1.1%	1.1%	4.1%	3.1%	4.0%

Source: NAR/TWR

**COMMERCIAL LEADING
INDICATOR (CLI) (continued from Page 2)**

“The moderate erosion in the index suggests that commercial activity, as measured by net absorption and the completion of new commercial buildings, will be positive but somewhat weaker over the next six to nine months. Private nonresidential investment in structures is likely to subtract one-third to one-half percentage point off GDP growth,” Yun said. “Along with the impact of the credit crunch, a weakening in leasing and building sales activity should come as no surprise because commercial real estate follows changes in overall economic activity.”

The quarterly decline results from falling employment in the sectors requiring office space, rising first-time unemployment claims, a lower rate of return as measured by NCREIF (National Council of Real Estate Investment Fiduciaries), and a falling NAREIT (National Association of Real Estate Investment Trust) price index. In addition, there was a modest decline in industrial production.

Realtor® members who specialize in office and industrial properties indicate in a separate attitudinal survey that they anticipate a much lower level of business activity in the upcoming quarters.

“The job market is weak, but not recessionary,” Yun said. “There are large regional variations, with job growth in the South, while overall professional business service jobs are in the process of a long-term expansion.

“The U.S. is the world leader in the knowledge-based industry, and trade exports are solid – combined, these are solid underlying fundamentals for positive rent growth and net absorption in the commercial real estate market.”

The commercial leading indicator is a tool to assess market behavior in the major commercial real estate sectors. The index incorporates 13 variables that reflect future commercial real estate activity, weighted appropriately to produce a single indicator of future market performance, and is designed to provide early signals of turning points between expansions and slowdowns in commercial real estate.

The 13 series in the index are industrial production, the NAREIT price index, NCREIF total return, personal income minus transfer payments, jobs in financial activities, jobs in professional business service, jobs in temporary help, jobs in retail trade, jobs in wholesale trade, initial claims for unemployment insurance, manufacturers’ durable goods shipment, wholesale merchant sales, and retail sales and food service.

Office vacancy rates rise in virtually all primary markets...

LOWEST OFFICE VACANCY Q2/2008 FORECAST

1) New York, NY	6.3%
2) San Francisco, CA	9.2%
3) Honolulu, HI	9.3%
4) Long Island, NY	9.6%
5) Ventura, CA	10.5%
6) Los Angeles, CA	10.7%
7) Stamford, CT	11.1%
8) Nashville, TN	11.1%
9) Seattle, WA	11.2%
10) Boston, MA	11.3%
11) Charlotte, VA	11.3%
12) Houston, TX	11.5%
13) Washington, DC	11.5%
14) Riverside, CA	11.8%
15) Portland, OR	12.1%
<u>US National Avg.</u>	13.3%

Source: NAR/TWR

With slowing job growth – particularly in office-using industries – the demand for office space has decreased. Many companies have also put expansion plans on hold, waiting to see what happens in the national and their local economies.

Nationally, the vacancy rate edged up slightly, from 12.9 percent in the first quarter of 2008 to 13.3 percent in the second quarter. There were some bright spots: New York City, San Francisco, Honolulu and Long Island all boasted single-digit rates. Many analysts thought New York's office sector would be harder hit from financial firms exiting space or moving out of the city as a result of the turmoil in credit and other financial markets.

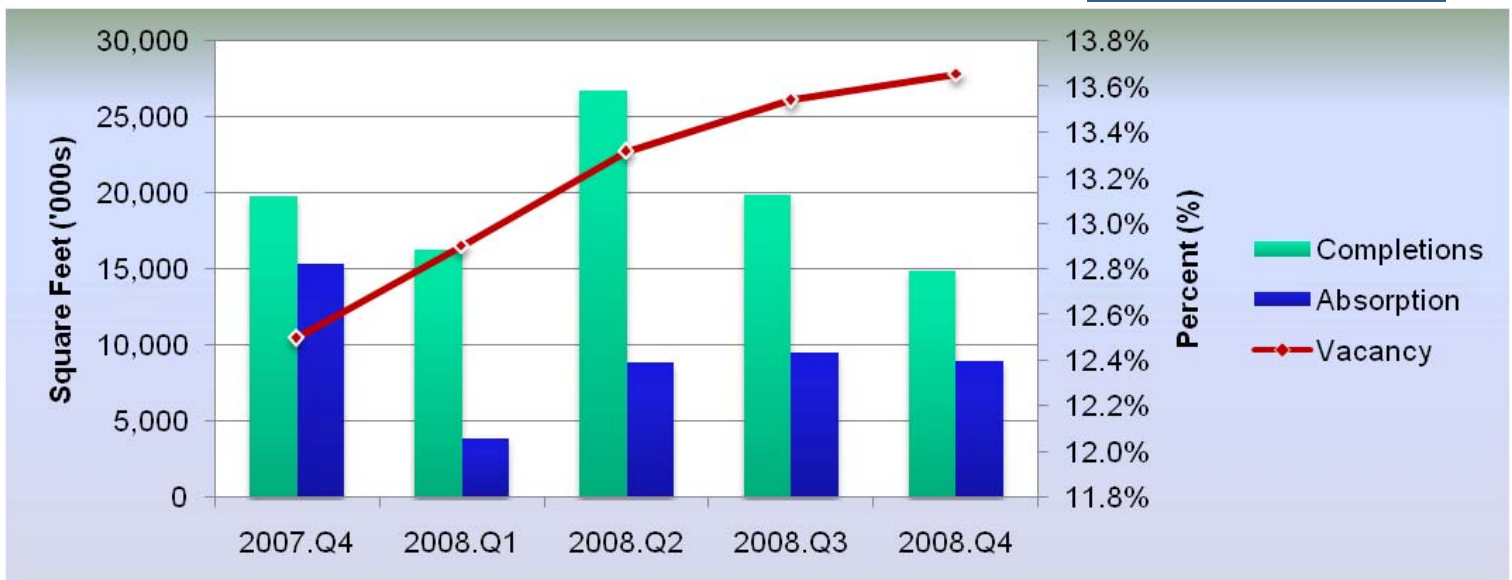
Office markets in the West and Southwest have been hurt the most from weakening demand. Phoenix, AZ office vacancy is now close to 20 percent, more than double the rate just two years ago. Office vacancy has also increased in some Florida markets, especially in Central Business Districts. West Palm Beach vacancy has risen to almost 20 percent, up from 9.5 percent in the second quarter of 2006.

The rise in vacancies in these areas could be due, in part, to a “spillover” effect from downturns in local housing markets.

Absorption for 2008 is expected to be half of what it was in 2007. Part of this is due to increased new completions (inventory). Again this issue continues to be back-filling older Class B and Class C buildings.

Rent growth for office space will remain positive in 2008, although not as robust as in 2007. With rising vacancies, rent growth is expected to soften significantly. Look for rents to increase just 3.0 percent in 2008, compared to 8.0 percent last year.

OFFICE FUNDAMENTALS



Source: NAR/Torto Wheaton Research

REGIONAL OFFICE TRANSACTION VOLUME 2008 YTD
(% change from 1 year ago)

Mid-Atlantic

Washington, DC...\$ 1,229 million (-70%)
DC/VA Suburbs\$386 million (-92%)
Philadelphia, PA.....\$330 million (-3%)
DC/MD Suburbs.....\$305 million (-63%)

Midwest

Chicago, IL..... \$1,658 million (-68%)
Detroit, MI\$655 million (+95%)
St. Louis, MO.....\$314 million (+11%)
Kansas City, MO/KS \$251 million (59%)

Northeast

Manhattan..... \$2,913 million (-86%)
N. New Jersey.....\$458 million (-76%)
Boston, MA.....\$322 million (-95%)
Stanford, CT.....\$118 million (-91%)

Southeast

Miami, FL\$315 million (-67%)
Atlanta, GA.....\$294 million (-85%)
Raleigh, NC..... \$251 million (-52%)
Jacksonville, FL. \$233 million (+466%)

Southwest

Houston, TX\$872 million (+4%)
Phoenix, AZ.....\$615 million (-51%)
Denver, CO.....\$419 million (-81%)
Dallas, TX..... \$319 million (-68%)

West

Los Angeles, CA...\$1,458 million (-70%)
San Jose, CA.....\$741 million (-70%)
San Francisco, CA... \$533 million (-92%)
Portland, OR..... \$496 million (-78%)

Source: Real Capital Analytics, May, 2008

Significant drop in suburban office building transactions...

With weaker demand, tighter credit and concerns about the economy, investment in office properties is down from year-ago levels. A total transaction volume of just \$18.5 billion was posted from January to the end of April 2008. This is down from the \$95 billion that traded hands in the first four months of 2007 -- an 80 percent decline.

The greatest declines in office transactions were seen in the following markets:

- The Northeast down 88 percent from the same period last year
- The West down 87 percent from the same period last year
- The Mid Atlantic down 74 percent
- The Southwest down 63 percent
- The Southeast down 62 percent
- The Mid-West down 53 percent

There were some individual markets that experienced increases in office investment, including three in the Midwest: Detroit (up 95%), Kansas City (up 59%), St. Louis (up 11%).

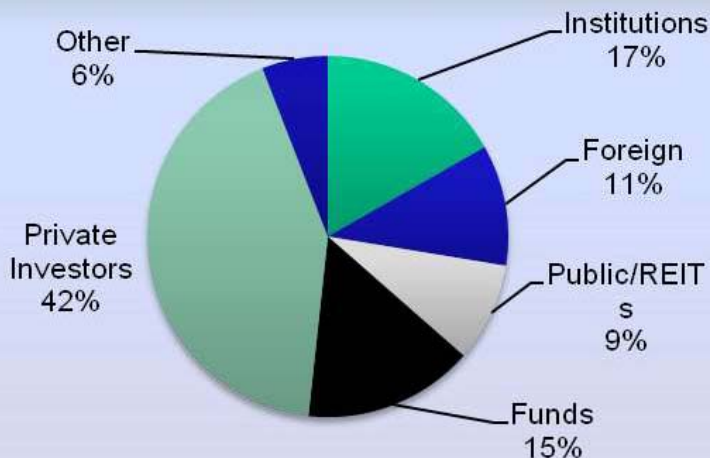
While transaction volume in most central business districts (CBDs) was down, suburban market office investment volume declined even more. The trend seems odd, considering that pricing is down in the suburbs -- by as much as 24 percent in the Mid-Atlantic. Pricing for buildings in CBDs was actually up by 44 percent in the Southeast, mainly in secondary and tertiary markets.

The top buyers so far in 2008 include:

- Hines Interests – \$1,086 million
- Nationwide Health Properties – \$904 million
- Ashkenazy Acquisition Corp – \$680 million
- The Carlyle Group – \$680 million

Institutional investors and foreign investors have increased their market share in terms of office acquisitions. This is easy to understand given the low level of transactions. Institutional investors' share of all office acquisitions is up slightly to 23 percent while foreign investors account for 12 percent.

Office Investors by Transaction Volume 2008 YTD



Source: Real Capital Analytics, June 2008

Office Region	Average Cap Rate	Average Price (\$/Sq. Ft.)
Mid-Atlantic	7.0%	\$210
Midwest	7.6%	\$148
Northeast	5.9%	\$493
Southeast	7.3%	\$173
Southwest	7.0%	\$160
West	6.1%	\$289

Source: Real Capital Analytics, April 2008

Industrial vacancy rates rise, but remain in the single digits...

LOWEST INDUSTRIAL VACANCY Q2/2008 FORECAST

1) Los Angeles, CA	4.9%
2) Tucson, AZ	5.1%
3) San Francisco, CA	5.7%
4) Seattle, WA	6.1%
5) Orange County, CA	6.3%
6) Salt Lake City, UT	6.4%
7) Long Island, NY	6.4%
8) Portland, OR	6.8%
9) Ventura, CA	6.9%
10) Kansas City, MO	7.1%
11) Albuquerque, NM	7.2%
12) Cincinnati, OH	7.2%
13) Houston, TX	7.3%
14) Newark, NJ	7.5%
15) Tampa, FL	7.7%

US National Avg. 10.0%
Source: NAR/TWR

Demand for industrial space has fallen, due primarily to the economic slowdown. Nationally, the industrial vacancy rate edged up slightly from 9.8 percent in the first quarter of 2008 to 9.9 percent in the second quarter of 2008. As was the case with office markets, industrial markets in the West, Southwest and Florida have borne the brunt of the impact – many of which also experienced the worst from the slowing housing market. In particular industrial markets in Orlando, Phoenix, Tampa and West Palm Beach have experienced increasing availability. Two years ago the industrial vacancy rate in West Palm Beach was 3.2 percent compared with 9.6 percent in the most recent quarter.

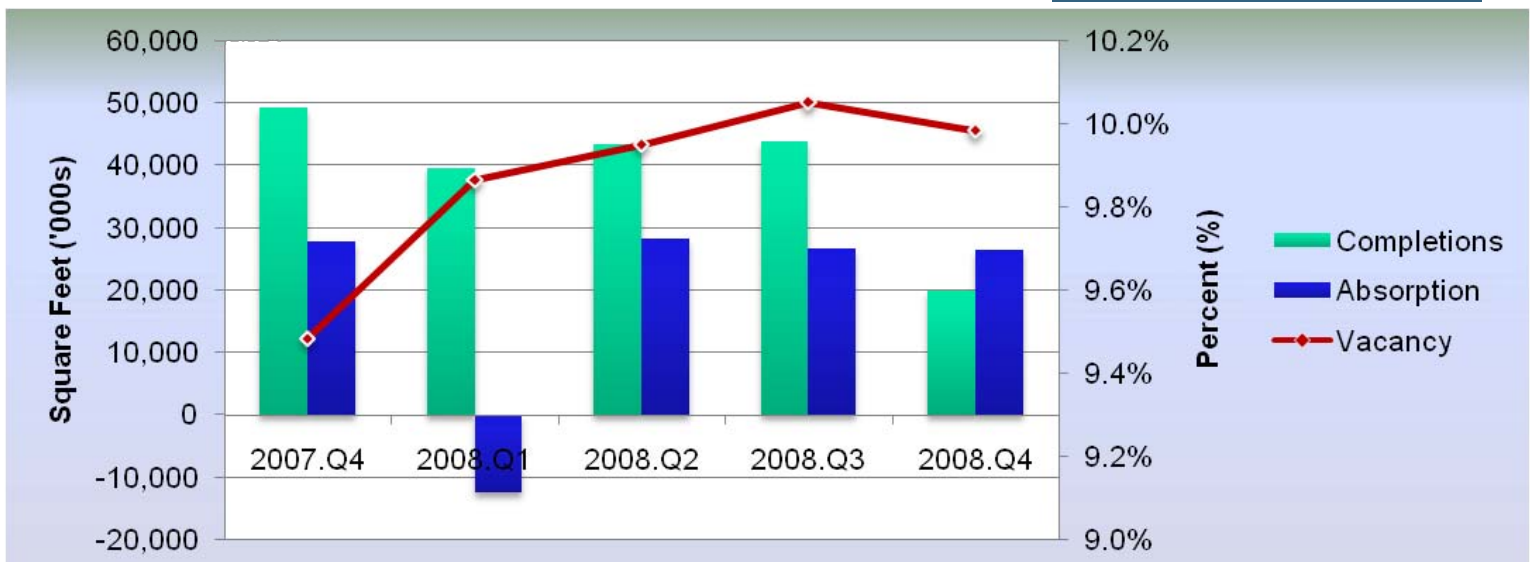
Absorption of industrial space for 2008 is expected to be less than half of what it was in 2007. Net absorption is estimated at 68.8 million square feet this year, down from 158.3 million square feet in 2007. Completions are at the same level as last year, but most are build-to-suit which means that older obsolete or near-to-obsolete buildings are being vacated and not re-leased.

While demand for warehouse space has decreased, demand for light manufacturing space has actually increased somewhat. The falling U.S. Dollar means that U.S.-made goods are more attractive to foreign markets. Therefore manufacturing is picking up somewhat, as have exports.

Even so, overall vacancy in industrial real estate is likely to maintain at the current 9.9 percent rate through the fourth quarter of this year –up from 9.4 percent in the fourth quarter of 2007.

With rising vacancy and falling demand, rent growth for industrial properties and space is expected to be down significantly from that of last year. For 2008, rent growth is likely to be just 1.2 percent, about one-third the rent growth of last year (3.6%).

INDUSTRIAL FUNDAMENTALS



Source: NAR/Torto Wheaton Research

**REGIONAL INDUSTRIAL
TRANSACTION VOLUME 2008 YTD**
(% change from 1 year ago)

Mid-Atlantic

2nd & 3rd tier markets ..\$335 million (+7)
DC/MD Suburbs.....\$39 million (-51%)
Pittsburgh, PA.....\$34 million (-30%)
Baltimore, MD.....\$25 million (-78%)

Midwest

Chicago, IL.....\$614 million (-28%)
2nd & 3rd tier markets.\$535 million (-19%)
Minneapolis, MN.....\$179 million (-13%)
Columbus, OH.....\$93 million (-61%)

Northeast

N. New Jersey..... \$280 million (-6%)
Boston, MA\$260 million (-26%)
NYC Boroughs.....\$185 million (-2%)
Manhattan.....\$107 million (+42%)

Southeast

2nd & 3rd tier market..\$466 million (-32%)
Charlotte, NC.....\$324 million (+285%)
Atlanta, GA.....\$169 million (-37%)
Memphis, TN.....\$131 million (-53%)

Southwest

Phoenix, AZ.....\$454 million (+53%)
Dallas, TX.....\$195 million (-46%)
Houston, TX.....\$175 million (-61%)
Denver, CO.....\$129 million (-24%)

West

Los Angeles, CA.....\$685 million (-29%)
Riverside, CA.....\$572 million (+103%)
2nd & 3rd tier markets.\$335 million(+21%)
Seattle, WA.....\$237 million (-52%)

Source: Real Capital Analytics, May 2008

**Secondary & tertiary industrial markets
attractive thus far in 2008...**

As with other sectors of the commercial real estate market, sales of industrial properties are down from year-ago levels. Transaction volume for the first four months of 2008 was \$8.5 billion, down from the \$11.9 billion posted January-April 2007. Overall, sales are down 38 percent year-to-date. The biggest decreases were in the Mid-Atlantic, where transaction volume was off 57 percent, and the Midwest where volume was down 40 percent.

But, as with office properties there were some individual markets variations. Charlotte, NC saw an increase of 285 percent in sales volume. Riverside, CA posted a 103 percent rise. Secondary and tertiary markets in the Mid-Atlantic and West boasted positive increases of 7 percent and 21 percent, respectively. Indeed, secondary markets have become most attractive to institutional investors and users.

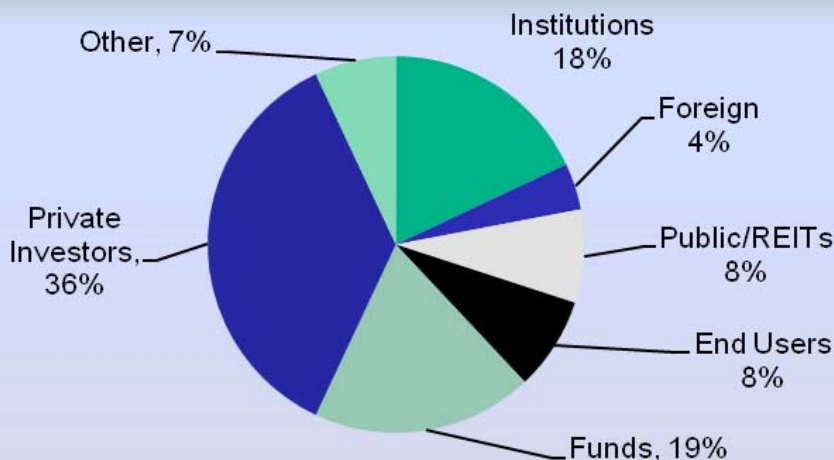
Major industrial buyers in 2008 so far include:

- TA Associates Realty – \$234 million
- CB Richard Ellis Investors – \$196 million
- KTR Capital Partners – \$167 million
- RREEF – \$160 million

Institutional investment in industrial real estate in the first part of 2008 is just \$1.5 billion, which is down 37 percent from the same time last year. REITs' appetite for industrial real estate is down 65 percent from the same time last year. ProLogis has been the most active industrial REIT so far in 2008.

Private investors still account for the largest share of industrial real estate investments. And while the level of institutional investment is down from last year, institutions represent 18 percent of industrial transaction volume. Foreign investors are less likely to invest in industrial properties than they are in the office sector.

Industrial Investors by Transaction Volume 2008 YTD



Source: Real Capital Analytics, May 2008

Industrial Region	Average Cap Rate	Average Price (\$/Sq. Ft.)
Mid-Atlantic	8.1%	\$56
Midwest	8.5%	\$51
Northeast	7.0%	\$84
Southeast	7.4%	\$58
Southwest	7.4%	\$68
West	6.0%	\$113

Source: Real Capital Analytics, April 2008

Southern California seeing rising retail availabilities...

LOWEST RETAIL VACANCY Q2/2008 FORECAST

1) San Francisco, CA	3.1%
2) Orange County, CA	3.4%
3) Ventura, CA	5.0%
4) San Jose, CA	5.1%
5) Miami, FL	5.2%
6) Washington, DC	5.2%
7) San Diego, CA	5.8%
8) Long Island, NY	5.8%
9) Honolulu, HI	6.2%
10) Los Angeles, CA	6.3%
11) Las Vegas, NV	6.5%
12) Nashville, TN	6.5%
13) New York, NY	6.9%
14) Seattle, WA	7.5%
15) Minneapolis, MN	7.6%

US National Avg. 9.7%

Source: NAR/TWR

Retail spending by consumers is one of the bellwethers of the nation's economy. Rising fuel prices are pushing up the prices of most consumer goods. Consequently, consumer spending on retail goods is also weakening as households have less money available for discretionary spending. That is having an impact on demand for retail real estate.

Nationally, the vacancy rate for retail has edged up significantly -- from 9.1 percent in the first quarter of 2008 to 9.7 percent in the second. Even the retailing hotbed of Southern California has been hard hit. This should not be too surprising given the housing price corrections that have been occurring in Southern California. People are not spending as much as they were when they were taking out home equity loans.

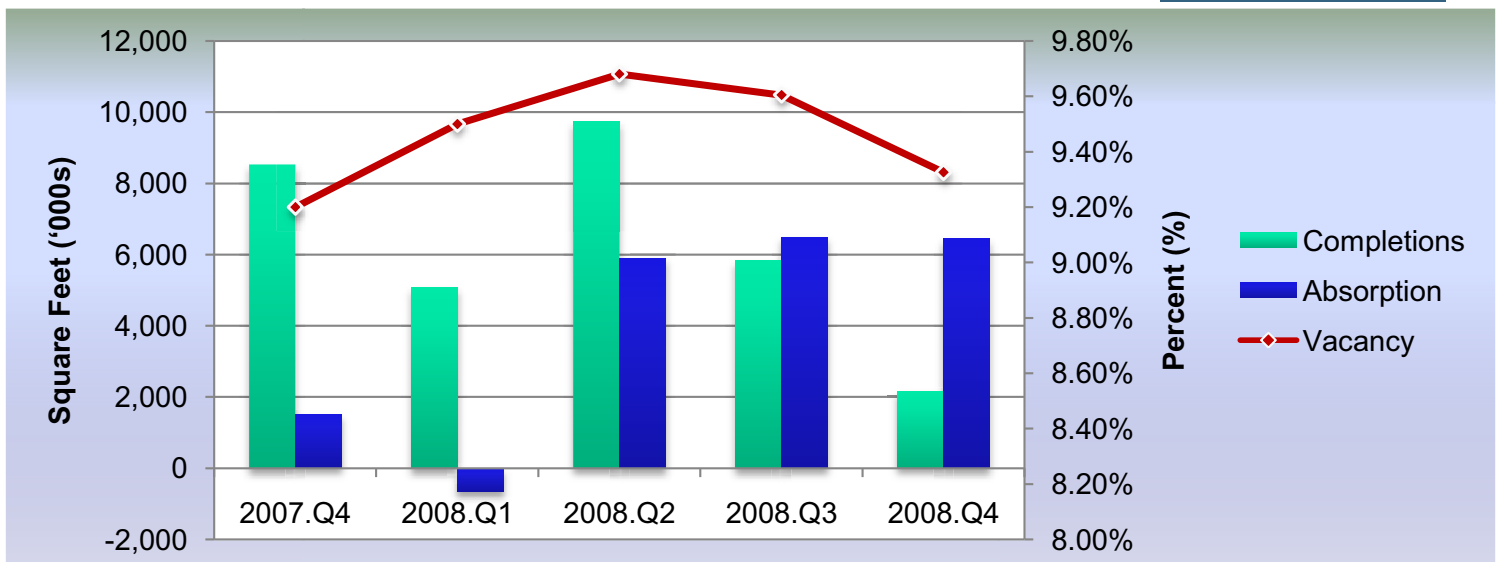
For instance, two years ago the retail vacancy rate in San Diego was 4.3 percent; in the second quarter of 2008 it is 5.8 percent. In real terms this means that there is an additional 654,000 square feet of vacant retail space in San Diego compared with two years ago.

The one thing saving the retail industry from being in an even worse situation is the fact that the construction of new retail space is down from previous years, by as much as 3.0 million square feet.

Vacancy rates in the retail sector will likely edge up to 9.3 percent by the fourth quarter of 2008 -- up slightly from the 9.2 percent posted in the fourth quarter of 2007. Average retail rent is expected to rise 1.3 percent in 2008, compared with the 2.9 percent gain last year.

The big "if" factors in this equation are future oil prices and the hoped-for recovery in housing. A turnaround in housing will help boost the economy as a whole. Consumer confidence -- in their ability to pay their bills and thus go back to "spending on retail" -- will also provide a boost. But oil prices have a big impact on getting retail goods to a store, and on the availability of consumers' disposable income after paying for energy. Until skyrocketing fuel prices settle down, demand for retail space will likely remain tempered.

Retail Fundamentals



Source: NAR/Torto Wheaton Research

REGIONAL RETAIL TRANSACTION VOLUME 2008 YTD
(% change from 1 year ago)

Mid-Atlantic

2nd/3rd tier markets \$321 million (-61%)
DC/VA Suburbs.....\$122 million (-85%)
Baltimore, MD.....\$52 million (-92%)
Philadelphia, PA.....\$37 million (-95%)

Midwest

Chicago, IL.....\$1,225 million (0%)
2nd/3rd tier markets \$317 million (-71%)
Cincinnati, OH.....\$113 million (-82%)
Kansas City, MO.....\$81 million (-11%)

Northeast

Boston, MA.....\$192 million (-60%)
Manhattan.....\$184 million (-35%)
Northern NJ.....\$149 million (-66%)
Stamford, CT.....\$92 million (-11%)

Southeast

2nd/3rd tier markets \$392 million (89%)
Atlanta, GA.....\$199 million (-90%)
Palm Beach, FL...\$113 million (-73%)
Miami, FL.....\$102 million (-84%)

Southwest

Houston, TX.....\$402 million (-60%)
2nd/3rd tier markets \$225 million (-70%)
Dallas, TX.....\$173 million (-84%)
Phoenix, AZ.....\$113 million (-76%)

West

Las Vegas, NV.....\$378 million (-26%)
Los Angeles, CA...\$276 million (-85%)
2nd/3rd tier market...\$275 million (-78%)
Riverside, CA.....\$210 million (-61%)

Retail transaction activity drops significantly as investors worry about consumer spending...

Concerns about trends in consumer spending are restraining retail transaction activity. In the real estate markets, retail transaction volume for the first four months of 2008 was \$7.5 billion, significantly down from the \$27.7 billion registered in the same time period in 2007. Markets like Cincinnati and Detroit have seen a 100 percent decline in retail investment activity so far into 2008.

Among the few bright spots for retail transactions was Sacramento, California, which experienced a 47 percent increase in retail transaction volume. Secondary and tertiary markets in the Southeast also boasted an aggregate increase in transaction volume this year.

Strip center transaction volume is down 77 percent so far this year compared with the same time period a year ago. The greatest decline for strip center transactions was in the Southeast, which was down 89 percent.

Nationally, pricing for retail real estate was off by just 5.5 percent. But there was a very noticeable 15 percent difference between asking and selling prices for those properties that were actually being sold.

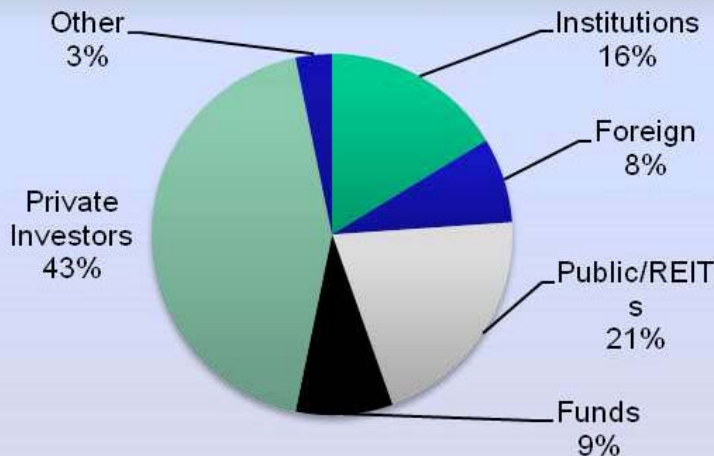
Main buyers so far this year include:

- Macerich – \$547 million
- Alaska Permanent Fund Group – \$515 million
- Ponte Gadea (Spain) – \$350 million
- CalPERS – \$327 million

Foreign buyers tend to focus on retail strip centers in Southern California, Chicago, the Northeast and the Southeast. Institutional investors were just slightly less likely to invest in retail properties than they were in industrial or office real estate.

Source: Real Capital Analytics, May 2008

Retail Investors by Transaction Volume 2008 YTD



Source: Real Capital Analytics, June 2008

Retail Region	Average Cap Rate	Average Price (\$/Sq. Ft.)
Mid-Atlantic	6.9%	\$130
Midwest	7.0%	\$191
Northeast	6.7%	\$287
Southeast	7.0%	\$141
Southwest	7.1%	\$148
West	6.3%	\$246

Source: Real Capital Analytics, April 2008

Multi-family vacancy rates stable...

LOWEST MULTI-FAMILY VACANCY FORECAST Q2/2008

1) Pittsburgh, PA	3.0%
2) Newark, NJ	3.0%
3) Salt Lake City, UT	3.0%
4) Norfolk, VA	3.1%
5) San Jose, CA	3.3%
6) Richmond, VA	3.3%
7) Baltimore, MD	3.4%
8) Minneapolis, MN	3.7%
9) Boston, MA	3.7%
10) San Diego, CA	3.7%
11) Oakland, CA	3.7%
12) Miami, FL	3.8%
13) Raleigh, NC	4.1%
14) Louisville, KY	4.4%
15) Albuquerque, NM	4.5%
<u>US National Avg.</u>	5.4%

Source: NAR/TWR

As the residential real estate market took a downturn, many investors looked to multi-family properties. Then the subprime mortgage meltdown fueled a crisis in financial and credit markets. Many otherwise potential home buyers turned to or remained in multi-housing rental units. That helped to keep multi-family vacancy rates relatively low and rent growth robust.

But most analysts are expecting a drop-off in future demand for rental housing. Once credit markets return to a historic equilibrium, those potential home buyers who have been waiting for credit to loosen up and for home prices to finally hit bottom will purchase a home and move out of their rental units.

Consequently, multi-family vacancy rates are likely to rise to 5.7 percent in the fourth quarter of 2008 – up from 4.8 percent in the fourth quarter of 2007. Rents will still rise – up 4.0 percent in the fourth quarter of 2008, in part so that landlords/owners can cover rising costs of servicing and maintaining their buildings.

Multi-Family Fundamentals



Source: NAR/Torto Wheaton Research

**REGIONAL MULTI-FAMILY
TRANSACTION VOLUME 2008 YTD**

Mid-Atlantic

3rd tier markets.....\$224 million
DC/VA Suburbs.....\$231 million
Baltimore, MD.....\$127 million
Philadelphia, PA.....\$100 million

Midwest

Chicago, IL.....\$611 million
3rd tier markets.....\$377 million
Cincinnati, OH.....\$136 million
Kansas City, MO...\$69 million

Northeast

Boston, MA.....\$100 million
Manhattan.....\$1,226 million
Northern NJ.....\$283 million
3rd tier markets.....\$181 million

Southeast

3rd tier markets.....\$1,173 million
Atlanta, GA.....\$594 million
Palm Beach, FL...\$69 million
Miami, FL.....\$30 million

Southwest

Houston, TX.....\$1,263 million
3rd tier markets\$525 million
Dallas, TX.....\$1,032 million
Phoenix, AZ.....\$404 million

West

Las Vegas, NV.....\$135 million
Los Angeles, CA...\$446 million
3rd tier markets.....\$216 million
Seattle, WA.....\$809 million

Source: Real Capital Analytics, June, 2008

Investors abandon multi-family...

Purchases of multi-family properties mirror the trend in other commercial sectors. Transaction volume for multi-family properties so far this year is a mere \$13.7 billion compared with the \$23.2 billion that traded hands from January to the end of April 2007. Indeed, sales transaction volume is off by 46 percent nationally.

Continuing the trend from last year, institutions and private investors together account for 80 percent of the multi-family transactions so far this year. Foreign investors have not been buying multi-family investments and this trend continues into 2008.

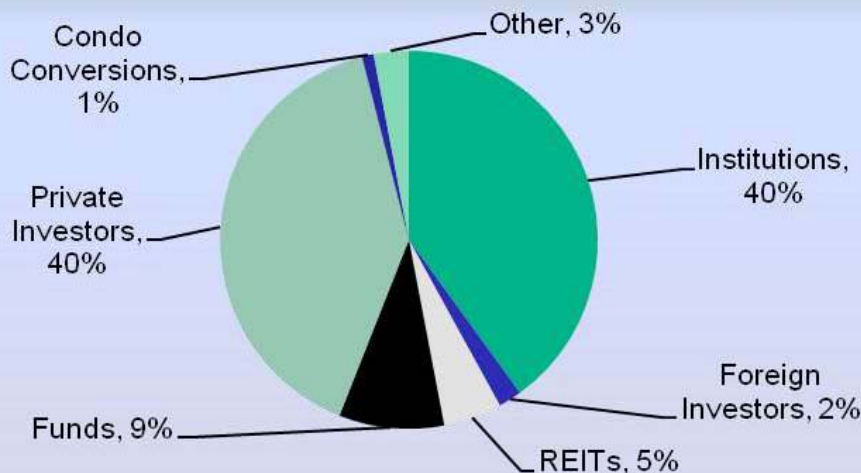
Some markets have witnessed an increase in sales volumes, including San Francisco, San Jose, Tampa, Portland, and Raleigh.

On a national level, average prices have fallen below the \$100,000/unit.

Major multi-family buyers this year have included:

- Steven D. Bell & Co. – \$1,705 million
- DRA Advisors – \$1,705 million
- American Campus Communities – \$1,411 million
- United Dominion Realty Trust – \$62 million

Multi-Family Investors by Transaction Volume 2008 YTD



Source: Real Capital Analytics, May 2008

Multi-Family Region	Average Cap Rate	Average Price (\$/Unit)
Mid-Atlantic	5.8%	\$135,930
Midwest	7.5%	\$75,036
Northeast	5.6%	\$175,145
Southeast	6.2%	\$79,743
Southwest	6.9%	\$67,557
West	5.6%	\$141,789

Source: Real Capital Analytics, April 2008

METRO FORECAST SUMMARY Q2/2008

	Office Vacancy Rate	Industrial Vacancy Rate	Retail Vacancy Rate	Multi-Family Vacancy Rate
Albuquerque, NM	13.2%	7.2%	9.4%	4.5%
Atlanta, GA	17.0%	13.3%	11.3%	7.3%
Austin, TX	17.4%	11.7%	9.8%	4.9%
Baltimore, MD	14.0%	13.4%	8.2%	3.4%
Boston, MA	11.3%	14.6%	7.8%	3.7%
Charlotte, NC	11.3%	9.7%	8.5%	4.9%
Chicago, IL	15.4%	11.2%	13.0%	5.4%
Cincinnati, OH	17.7%	7.2%	14.3%	5.2%
Cleveland, OH	16.1%	9.2%	14.9%	5.4%
Columbus, OH	15.9%	13.1%	15.4%	4.5%
Dallas, TX	21.4%	11.7%	13.7%	5.3%
Denver, CO	15.3%	10.7%	11.5%	4.8%
Detroit, MI	21.3%	16.9%	15.6%	5.0%
Fort Lauderdale, FL	14.8%	8.5%	9.9%	5.2%
Fort Worth, TX	12.7%	9.0%	15.0%	5.2%
Hartford, CT	16.1%	10.4%	—	—
Honolulu, HI	9.3%	—	6.2%	5.5%
Houston, TX	11.5%	7.3%	13.3%	8.3%
Indianapolis, IN	16.6%	10.7%	16.9%	6.4%
Jacksonville, FL	18.9%	9.7%	8.4%	9.0%
Kansas City, MO	14.0%	7.1%	14.0%	6.0%
Las Vegas, NV	16.8%	9.0%	6.5%	6.4%
Long Island, NY	9.6%	6.4%	5.8%	—
Los Angeles, CA	10.7%	4.9%	6.3%	4.6%
Miami, FL	12.3%	8.2%	5.2%	3.8%
Minneapolis, MN	15.0%	8.5%	7.6%	3.7%
Nashville, TN	11.1%	10.3%	6.5%	4.6%
New York, NY	6.3%	8.6%	6.9%	6.2%
Northern New Jersey (Newark)	14.7%	7.5%	—	3.0%
Oakland, CA	15.5%	10.2%	9.9%	3.7%

Source: NAR/TWR

METRO FORECAST SUMMARY Q2/2008

	Office Vacancy Rate	Industrial Vacancy Rate	Retail Vacancy Rate	Multi-Family Vacancy Rate
Orange County, CA	16.2%	6.3%	3.4%	4.7%
Orlando, FL	14.6%	9.4%	8.9%	6.5%
Philadelphia, PA	12.7%	10.0%	9.3%	4.7%
Phoenix, AZ	19.4%	12.6%	9.4%	7.6%
Pittsburgh, PA	13.3%	—	—	3.0%
Portland, OR	12.1%	6.8%	9.7%	4.6%
Raleigh, NC	12.3%	—	—	4.1%
Riverside, CA	11.8%	11.1%	13.3%	5.4%
Sacramento, CA	17.3%	11.6%	11.4%	5.2%
Salt Lake City, UT	13.0%	6.4%	8.1%	3.0%
San Diego, CA	15.5%	9.4%	5.8%	3.7%
San Francisco, CA	9.2%	5.7%	3.1%	4.6%
San Jose, CA	13.3%	10.7%	5.1%	3.3%
Seattle, WA	11.2%	6.1%	7.5%	4.5%
Stamford, CT	11.1%	13.1%	—	—
St. Louis, MO	14.4%	10.4%	12.5%	6.3%
Tampa, FL	16.0%	7.7%	8.5%	6.9%
Tucson, AZ	12.4%	5.1%	12.4%	7.3%
Ventura, CA	10.5%	6.9%	5.0%	—
Washington, DC	11.5%	12.7%	5.2%	4.7%
West Palm Beach, FL	19.3%	9.6%	7.9%	7.1%
National Averages	13.3%	9.9%	9.7%	5.4%

Source: NAR/TWR

N.B. Not all markets are represented in chart above.

National Council of Real Estate Investment Fiduciaries Property Index Q1/2008

Total Returns.....	1.60%
Office Returns.....	1.96%
Industrial Returns.....	1.44%
Retail Returns.....	1.44%
Multi-Family Returns.....	1.26%

Source: NCREIF, Q1/2008

NAR Research...

NAR Research also provides analysis of monthly economic indicators, such as GDP and employment data that clearly impact commercial markets over time.

If you have questions or comments regarding this report or any other commercial real estate research, please feel free to contact George Ratiu, NAR Economist, at (202) 383-1081 or gratiu@realtors.org

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