



PRESS RELEASE

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SIOR COMMERCIAL REAL ESTATE INDEX REFLECTS NATIONAL ECONOMY

February 2009 – Six hundred fifty-four SIOR market experts across the country weighed in on local industrial and office market conditions for the Fourth Quarter 2008 SIOR Commercial Real Estate Index, compiled by the SOCIETY OF INDUSTRIAL AND OFFICE REALTORS (SIOR) in association with the NATIONAL ASSOCIATION OF REALTORS (NAR). SIOR members' account of their local markets reflected the malaise of the general U.S. economy. In fact, 90 percent of respondents report that leasing activity in their local markets is down from historic levels and in general, vacancy levels are higher than normal. It is a "tenants market" as tenants are benefiting from above average concessions offered by landlords—some offering deep discounts—in an effort to fill empty space. There are no cranes on the horizon as more than half of SIORs surveyed indicated that there was virtually no new construction going on in their marketplace and the vast majority SIOR respondents—90 percent—indicated that, in general, construction was down in their market as the national economy continues to negatively impact the commercial real estate business.

The national Index, which measures 10 variables pertinent to the performance of U.S. industrial and office markets, dropped for an eighth straight quarter to an overall total of 48.7 points. This score reflects conditions that are significantly less favorable for landlords and sellers, but excellent for tenants and purchasers—if they can find the financing and if, in this economy they are growing—not likely. The commercial real estate market is suffering along with and due to the national economy. To put this in perspective, a score of 100 points represents a balanced office and industrial marketplace (see Methodology below). Remember the spring of 2006? The SIOR Index stood at 119.7 points—those were the good old days from a landlord's perspective. In fact, the drop from Third Quarter to Fourth Quarter 2008 was a whopping 17.7 points, the largest quarter-to-quarter drop by far since the market began its downward slide in the Spring of 2007.

Office Market

According to survey respondents, the Office Market experienced its biggest drop since it began its continuous decline in Fourth Quarter 2006. Scoring only 41.5 points, it lost 17.8 points from last quarter leaving it 58.5 points from equilibrium. The office market is in worse shape than the industrial market at this point.

Industrial Market

The Industrial Market Index, a miniscule 2.1 points higher than office, fell 15.4 points, its greatest quarter-to-quarter decline since the Index began in Third Quarter 2005, landing it at 43.6 points to end the year.

- More -

Regional Breakdown

Respondents from the **South**, scored 54.2 points—the best score of all the regions—helped along by the East South Central and West South Central sub-regions which reported a score of 57.8 and 66 points scores respectively. Compared to other regions, vacancy rates in the South were closer to their Fourth Quarter 2007 level and respondents from the South reported stable prices.

The short-term market outlook looks bleak according to SIORs in the **Northeast** who scored a mere 50.4 points this quarter. In a repeat performance of third quarter results, SIORs in the Northeast continued to feel that the national economy was affecting their local markets more than any other region. Although they felt that pricing in their region was stable, their short-term outlook for improvement in market conditions was glum.

The **Mid-West** dropped to 49.2 this quarter. While investment prices are lowest in the Mid-West, respondents reported that sublease space was closer to normal than SIORs in other sections of the country indicated.

The **West**, plunged to 39.3 points—26.3 points from Third Quarter 2008—to the lowest Fourth Quarter score of all the regions. The West was hit with a decline in asking rents, higher vacancy rates, increased sublease space, deep tenant concessions, development activity lower than all other regions, and falling prices.

METHODOLOGY

The SIOR Commercial Real Estate Index is constructed as a “diffusion index,” a very common and familiar indexing technique for economic measures. Other examples of diffusion indexes include the Index of Leading Economic Indicators, the Consumer Confidence Index, and the Institute of Supply Management’s Purchasing Managers’ Index. In the SIOR Commercial Real Estate Index, a value of 100 represents a well-balanced market for industrial and office property. Values significantly lower than 100 indicate weak market conditions; values significantly higher than 100 indicate strong market conditions. The theoretical limits of this Index are a low of zero, and a high of 200, though it is unlikely that such limits would be approached as long as the property markets are operating efficiently.

The Index is based on a survey questionnaire with ten topics. The topics covered are (1) recent leasing activity; (2) trends in asking rents; (3) trends in vacancy rates; (4) subleasing conditions; (5) levels of concession packages in leases; (6) development activity; (7) site acquisition activity; (8) investment pricing levels; (9) the impact of the local economy on the property market; and, (10) the effect of the national economy on the property market. Survey respondents are given five choices. For each topic, five choices are provided, corresponding to conditions that are very weak, moderately weak, well-balanced, moderately strong, or very strong.

For each question, answers are tallied and the percentage of responses for each of the five choices is calculated. If survey panelists indicate “very weak” conditions (the “a” choices in the questionnaire), the answer is assigned 0 (zero) points; “moderately weak” (“b” answers) earn 5 points; an indication of “market balance” (“c”) receives 10 points; “moderately strong” indications (“d”) score 15 points; and “very strong” (“e”) responses receive a maximum 20 points. Thus a score of 10 for a given question can be earned if responses are evenly distributed across all five choices, if all responses were “c”, or if the answers form a “bell-shaped curve” centered around the “c” choice. The total index value is derived by summing the scores for all ten questions. Index values for each of the two property types are similarly calculated.

The survey was developed by Hugh F. Kelly, CRE, clinical professor at New York University, who worked with SIOR on research projects since 1989.

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