

Will the slowing housing market affect demand for office space?

Executive Summary

Grubb & Ellis together with PNC Real Estate Finance examined real estate and economic data to assess the impact of the decelerating housing market on the demand for office space. Key findings are as follows:

- The impact of the housing slowdown on the nation's office market is likely to be modest, not enough to derail the overall recovery/expansion of the office market.
- However, the impact will vary by market. Fast-growing Western and Southern markets where housing prices and construction have expanded most rapidly will feel the sharpest impact.
- If the housing market were to reprise its last major downturn in 1991, 716,000 payroll jobs would be lost, 42 percent of the total number of payroll jobs added by all sectors over the past 12 months, from August 2005 to August 2006. More than 90,000 of these jobs would be in housing-related service sectors likely to occupy office space, generating negative net absorption of up to 16 million square feet over the next four quarters – roughly 20 percent of the total absorbed by all sectors during this period. This is likely to be a worst-case scenario, however.
- A more likely outcome is for the economy to sidestep a recession and continue to expand at a slower pace through 2007. In this scenario, housing-related office tenants can be expected to vacate around 8 million square feet of space over the next four quarters, equivalent to about 10 percent of total absorption over the past four quarters (mid-year 2005 to mid-year 2006).
- The impact of the housing industry downturn on demand for office space over the next few quarters is likely to be more muted than the impact of the technology industry downturn in the early part of this decade.

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Introduction

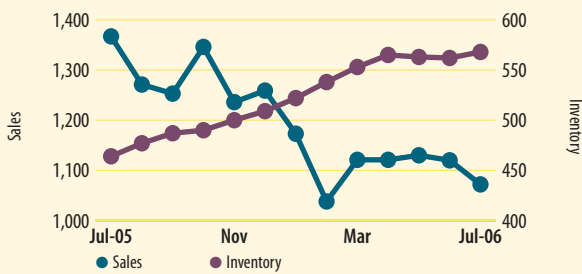
The last time there was a bubble in the economy – the tech bubble of the late 1990s and early 2000 – the impact on the office market was devastating. Whether it was the bubble itself or the recession that followed in 2001, the result was a massive and unprecedented wave of negative net absorption that more than doubled the office vacancy rate from 8.5 percent in the third quarter of 2000 to 17.9 percent in the first quarter of 2004, just a shade below the record peak of 18.0 percent that came on the heels of reckless lending and massive overbuilding in the late 1980s.

In 2006, there is again talk of a bubble, this time in the nation's housing market. Analysts debate whether low interest rates and speculation have driven sales and prices so far ahead of underlying demand that a correction is inevitable, and whether such a correction will be mild or severe. The purpose of this article is to examine the potential impact that a pullback in the housing market could have on tenant demand for office space. Could it, conceivably, have a similar impact to the tech bubble of five years ago, or will the impact turn out to be more benign and localized?

To address this issue, Grubb & Ellis reviewed leasing data from its proprietary database of leasing transactions and examined employment data from the U.S. Bureau of Labor Statistics, while PNC Real Estate Finance reviewed conditions in the homebuilding industry based on discussions with some of its key clients.

Housing Market Trends

New Home Sales & Unsold Inventory
(in thousands, SAAR)

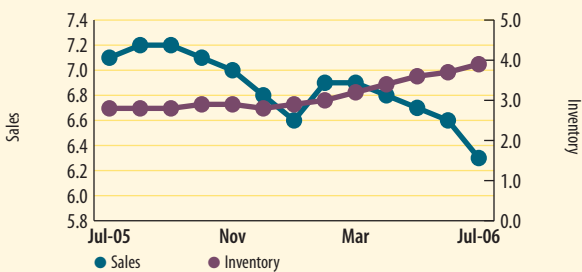


Source: Census Bureau

The nation's housing market continues to soften, with sales down, inventory up, and prices level to slightly lower year-over-year. As of July, sales of new homes were down 22 percent year-over-year at a seasonally adjusted annual rate, while the inventory of new homes available for sale jumped 22 percent. The median price was down sequentially and basically flat year-over-year. Data for existing home sales (typically a more reliable measure) were largely consistent, with total sales down 11 percent year-over-year and inventory up 40 percent. The inventory of existing homes for sale now represents a 7.3 month supply, up 59 percent from the prior year.

While declines were consistent across the country, the West region saw the most significant decline in existing home sales, down 18 percent year-over-year, followed by the Northeast, down 12.5 percent. All regions but the South witnessed small price declines. The median price of existing homes sold fell by 2.1 percent in the Northeast, the sharpest decline, while rising by 3.2 percent in the South.

Existing Home Sales & Unsold Inventory
(in millions)



Source: Census Bureau

Builder confidence dropped again in August, with the NAHB/Wells Fargo Housing Market Index hitting 32, down from a cyclical high of 72 reached June 2005, and homebuilders continue to revise profit estimates downward. Hovnanian was the most recent homebuilder to offer revised estimates (joining Lennar, Pulte and Toll), with the target range dropping around 40 percent. Hovnanian further stated that it is working to renegotiate many of its

land options contracts. Homebuilders are reporting substantial declines in orders, off 15 to 20 percent overall and up to 30 percent in major markets, which will translate into further sales declines and slowing activity over the next 12 to 24 months. Contract cancellations are becoming more common and contributing to the use of concessions and incentives.

The slowdown is largely being blamed on swelling inventory levels, with re-sales, often new homes purchased by speculators, flooding the markets. The markets must churn through this excess before patterns of growth resume. "Stubborn sellers" are also contributing to supply, expecting the big numbers of the past year. Troubling signs are even more apparent in the condo market, with builders in a number of different metros pulling projects, halting construction and reconvertng back to rental apartments. Markets with the highest percentage of investor re-sales will lag. According to David Lereah, Chief Economist for the National Association of Realtors, lines are drawn between the coastal and interior markets. Coastal markets have softened considerably, with many considered to be most at risk, while many interior markets are stable or even still favoring sellers. Across a number of metro areas, sales of higher priced homes are stalling while more modestly priced homes continue to sell.

That being said, it is important to note that the housing market remains strong relative to historic measures. According to Freddie Mac, 2006 is expected to be the third-strongest year on record for the national housing market, and Federal Reserve Chairman Bernanke is steadfast in framing the market's slowdown as "orderly." Certain housing markets that lagged during the boom years, e.g. Dallas and Houston, are showing strength, a trend beginning to appear in the fourth quarter with gaining rates of appreciation. Both markets have strong employment outlooks. Other markets have seen rapid increases in inventory but also sustained impressive levels of employment growth (Phoenix, Las Vegas, San Diego and Washington, DC), leaving these slowing markets somewhat protected. In Los Angeles, Miami, New York and San Francisco, the risk of slowing demand is mitigated by various factors, for example, a chronic shortage of housing (New York, Los Angeles, San Francisco) or substantial population gains (Miami). In contrast, markets like Boston, Minneapolis and Philadelphia have active pipelines but less robust employment growth prospects.

A recent report by Fiserv Lending Solutions and Economy.com provided forecasts for metro housing markets. Smaller markets tended to lead the list – cities like Panama City, Fla. (forecast appreciation of 21.2 percent 2006-2007) and Olympia, Wash. (13.1 percent). Seattle was the top major market, with projected appreciation of 10.5 percent. Most Florida metros are expected to exceed the U.S. pace of 3.5 percent with growth between 6 and 10 percent – healthy, but well below the pace of the past several years.

Office Market Trends

The office market is moving through a classic recovery cycle; absorption is strong, construction is modest, vacancy rates are falling, and rental rates are spiking in a small number of markets and at least stirring in most of the rest.

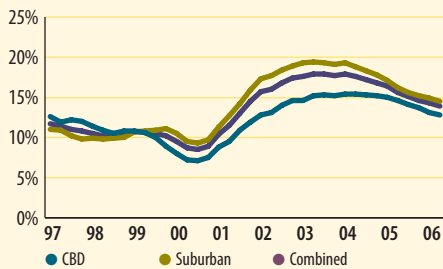
The vacancy rate ended the second quarter of 2006 at 13.9 percent compared with 14.3 percent in the prior quarter and 15.6 percent in the year-ago quarter. However, on average, vacancy remains above the generally accepted equilibrium rate of 10 to 12 percent, a sign that tenants continue to call the shots in a number of markets. Market conditions are tightest in Bakersfield, Cal. at 4.8 percent vacant followed by New York City and the adjacent Southern California markets of Riverside-San Bernardino and Orange County. Other markets with single-digit vacancy rates include San Diego and Fresno, Cal.; the three major South Florida markets of Miami-Dade, Broward and Palm Beach counties; the inland West cities of Las Vegas and Colorado Springs; Washington, D.C. and Honolulu. At the other extreme, markets saddled with vacancy rates above 20 percent include San Mateo (south of San Francisco), Dallas-Fort Worth and Detroit. Markets that are tightening most rapidly include Denver, San Francisco, San Antonio, Phoenix, Miami-Dade and San Jose/Silicon Valley, all posting vacancy declines of more than three percentage points in the past four quarters versus the 1.7 percentage-point drop in the U.S. vacancy rate.

Demand continued to outrun new supply in the second quarter, as it has for the past nine quarters. Net absorption of 18.7 million square feet easily topped the 10.2 million square feet of new space delivered. This gap is the catalyst behind the continuing decline in the vacancy rate. Year-to-date, tenant demand for space has been strongest in Chicago, Dallas-Fort Worth and New York City, all of which absorbed between 3.0 and 3.3 million square feet. The suburban New York City markets of Westchester County and Long Island, N.Y. posted the largest negative net absorption totals of -520,000 and -340,000 square feet, respectively.

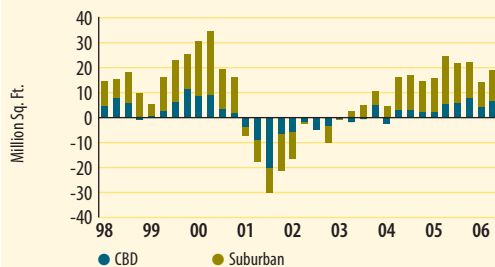
Competitive office space under construction crept up again to end the quarter at 64.1 million square feet, 9 percent above the prior quarter and double the year-ago quarter. However, construction activity is barely half the 124.9 million square feet recorded in the third quarter of 2000, the peak of the prior expansion cycle. With 14.5 million square feet underway, Washington, DC, including its Virginia and Maryland suburbs, is, by far, the most active market for office construction. Phoenix and Atlanta are a distant second and third, with 4.1 and 3.8 million square feet in the pipeline, respectively.

Average asking rental rates continued to march higher, up by 6.0 percent and 5.0 percent for Class A and B space, respectively, over the past four quarters. San Francisco and San Jose/Silicon Valley saw the highest gains in Class A asking rents at 16.0 and 13.2 percent – strong evidence that technology tenants are expanding again. Phoenix and Orange County also saw double-digit rent gains. The average Class A rental rate fell slightly – by less than 2 percent – in Atlanta; Wilmington, Del.; Cleveland; Fairfield County, Conn.; and

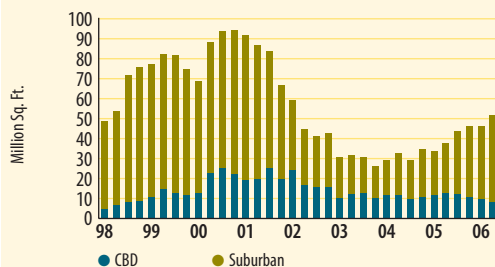
U.S. Office Vacancy Rate CBD vs. Suburban



Absorption of Office Space CBD vs. Suburban



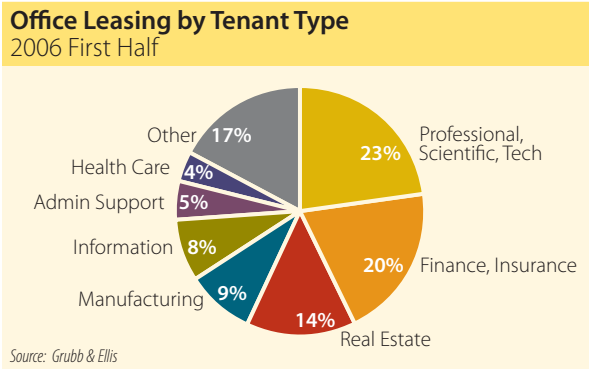
Spec Office Space Under Construction CBD vs. Suburban



Detroit. Rental rates remained mostly flat in a number of other markets such as Northern and Central New Jersey, Boston and Pittsburgh.

Tenants can take heart in the slight increase in sublease space on the market, which ended a string of 14 consecutive quarters of decline. Atlanta and Orange County posted surprisingly sharp increases. In Atlanta, the increase was caused by tenants moving into new space before their existing leases expired. In Orange County, a wave of housing-related office tenants down-sized in tandem with the slowing housing market.

Tenants engaged in finance and insurance, professional, scientific and technical services and real estate together accounted for 57 percent of office leases transacted in the first half of 2006. No other economic sector accounted for more than 10 percent of the total. In 2005, professional, scientific and technical services firms took the lead, accounting for 37 percent of all office leases signed, followed by finance and insurance tenants with 19 percent of the total.



Housing-related Employment

There is no single economic sector that accounts for employment related to the housing industry. The sectors most closely tied to demand for housing are spread across the super-sectors of construction, retail and wholesale trade, and financial activities as shown in Table 1. These are the same sectors identified by the economic research firm Moody's Economy.com with a few additions: land subdivision, direct property and casualty insurance carriers, direct title insurance carriers and other activities related to real estate.

Table 1: NAICS* Codes Tied to Demand for Housing

NAICS Code	NAICS Description
<i>Construction</i>	
2361	Residential building construction
2372	Land subdivision
238	Specialty trade contractors
<i>Wholesale and retail trade</i>	
4233	Lumber and other construction materials merchant wholesalers
444	Building material and garden equipment and supplies dealers
<i>Financial activities</i>	
522292	Real estate credit
52231	Mortgage and non-mortgage loan brokers
524126	Direct property and casualty insurance carriers
524127	Direct title insurance carriers
5312	Offices of real estate agents and brokers
53132	Offices of real estate appraisers
53139	Other activities related to real estate
<i>Professional and business services</i>	
5413	Architectural, engineering, and related services
5617	Services to buildings and dwellings

* North American Industry Classification System

There are two caveats related to the choice of these employment categories to define the impact of the housing market on the broader economy.

- With the exception of residential building construction, the other sectors listed in Table 1 do not distinguish between residential versus commercial real estate. Hence, these sectors tend to overstate employment related to the housing market. In 2001, the Bureau of Labor Statistics divided the specialty trade contractors sector into residential and non-residential sub-sectors, but to get a longer term (pre-2001) view, it is necessary to examine the broader specialty trade contractors sector.
- The housing market has a ripple effect on retail spending and economic growth. This has been particularly evident in recent years as homeowners have extracted some of their equity via home equity loans and cash-back mortgage refinancing, and spent part of their proceeds. This report does not consider these ripple effects on the broader economy.

Of all housing related jobs in 2005, 48 percent were in construction, 26 percent in professional and business services, and 13 percent apiece in trade and financial activities. Consequently, only about 39 percent of all housing related jobs – those in professional and business services and in financial activities – would be strong candidates for office buildings. Construction jobs, accounting for nearly half of the total, would be located primarily on construction job sites with no permanent space required, although a fraction would be in office buildings such as the headquarters or regional offices of construction companies. The remaining 13 percent of housing-related jobs would be located in industrial or retail big-box properties.

Tech-related Employment

The economic sectors most closely related to technology are shown in Table 2. This list is a combination of the sectors identified by AeA (American Electronics Association) and the Los Angeles Economic Development Corporation.

Table 2: NAICS* Codes Tied to Technology

NAICS Code	NAICS Description
<i>Manufacturing</i>	
3254	Pharmaceuticals and medicine
334	Computer and electronic products
3364	Aerospace products and parts
<i>Wholesale trade</i>	
4236	Electrical and electronic goods merchant wholesalers
<i>Information</i>	
5112	Software publishers
516	Internet publishing and broadcasting
517	Telecommunications
518	ISPs, Web search portals and data processing services
<i>Professional and business services</i>	
5415	Computer systems design and related services
5416	Management, scientific and technical consulting services
5417	Scientific research and development services

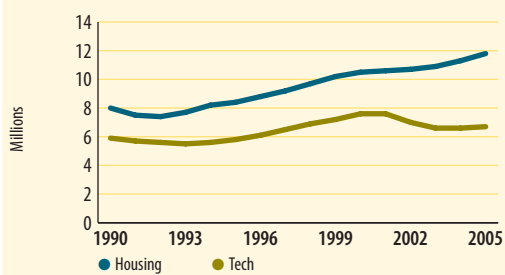
* North American Industry Classification System

Technology employment, like housing-related employment, has a strong ripple effect through the economy. Many sectors of the “old economy” are achieving productivity gains by acquiring and implementing the latest technology, helping them boost output with the same or lower employee headcounts and thereby cutting costs.

Of all technology jobs in 2005, 39 percent were part of the professional and business services sector, 31 percent were in manufacturing, 25 percent in information, with wholesale trade accounting for the remaining 5 percent. Thus, about 64 percent of all technology sector jobs – those in professional and business services and in information – would be likely candidates for location in an office building. The remaining 36 percent would be located mostly in industrial or flex properties.

Housing versus Technology Employment

Housing & Tech Related Employment

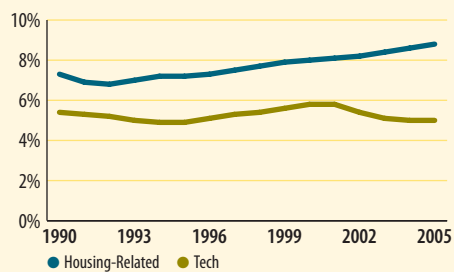


Source: Labor Department

The housing industry accounts for a significantly larger share of total payroll employment in the U.S. than does the technology industry. In 2005, housing accounted for a total of 11.7 million jobs compared with 6.7 million technology jobs.

Total payroll employment related to the housing industry expanded by 47 percent over the past 15 years, from 8.0 million jobs in 1990 to 11.8 million jobs in 2005. This is double the 23 percent gain in total non-farm payroll employment during this period. As a result of its faster growth, the share of total payroll employment related to housing grew from 7.3 percent in 1990 to 8.8 percent in 2005. By no means is the industry immune from a downturn. In 1991, housing-related employers shed 470,900 jobs, a one-year decline of 5.9 percent. The housing industry is one of sharp peaks and valleys, although the downturn that accompanied the recession of 2001 was more like a gentle dip because record-low mortgage rates propped up demand.

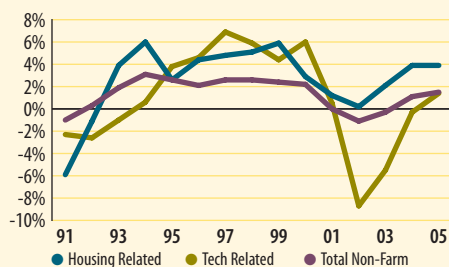
% of Total Payroll Employment



Source: Labor Department

When the U.S. government switched to the North American Industry Classification System (NAICS) from the Standard Industrial Classification System (SIC) in 2002, it reclassified employment data only back to 1990. An examination of comparable SIC data back to 1972 reveals that the housing industry suffered deeper downturns in 1975 and 1980-82, when housing-related employment fell by 9.4 percent and 7.3 percent, respectively.

Payroll Jobs % Change Y/Y



Source: Labor Department

Tech-related employment grew from 5.9 million jobs in 1990 to a peak of 7.6 million jobs in 2001 before falling back to 6.6 million jobs in 2004. It increased slightly to 6.7 million jobs in 2005. As of 2005, tech-related employment is just 13 percent above its level in 1990, well below the 23 percent growth of total payroll employment during this period and far less than the 47 percent growth rate of housing-related employment. Viewed another way, the housing industry in 2005 was responsible for 436,200 net new payroll jobs, just ahead of the 432,400 jobs generated by technology-related employers in the tech-sector’s peak year of 2000. Tech employment fell a sharp 8.7 percent in 2002 followed by further declines of 5.5 percent in 2003 and 0.3 percent in 2004 before posting a modest gain of 1.4 percent in 2005.

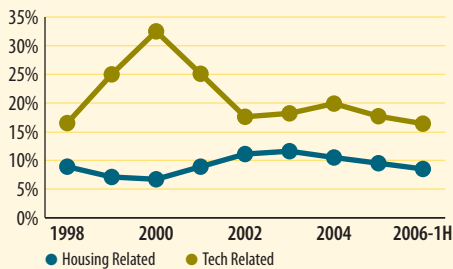
Office Leasing by Housing versus Technology Tenants

Grubb & Ellis tracks a nationwide sample of leasing transactions (called comps) estimated to account for approximately one-third of total leasing activity in the U.S. The Grubb & Ellis database of leasing comps includes the NAICS codes of the lessees. Based on this sample, housing-related tenants account for a smaller share of office leasing activity than do technology tenants despite the housing industry's larger employment base. Technology tenants leased more space than housing-related tenants every year from 1998 through 2005, sometimes by a wide margin. At its peak, tech tenants accounted for nearly one-third of all office leasing activity in the bubble year of 2000. The housing industry accounted for a peak of 11.6 percent of all leasing activity in 2003.

There was a surge of leasing by technology companies in 2000 far beyond their representation in the employment base. Technology companies in the sectors listed in Table 2 accounted for one-third of all leasing activity in 2000, fueled by the availability of venture capital, a soaring stock market in the period leading up to the bursting of the tech bubble, and the practice among tech firms of leasing space in advance of need in order to avoid being shut out of the market. The office vacancy rate hit a low of 8.5 percent in the third quarter of 2000, but fell much further in technology centers such as Boston at 3.1 percent, San Francisco at 1.7 percent and San Jose/Silicon Valley at 1.6 percent. On the other hand, office leasing activity by tenants in the housing industry has exhibited no such bubble or spike in terms of space leased or the share of total leasing activity.

Why does the housing industry, which generates far more jobs than the tech industry, lease so much less office space? One reason is not hard to find. Of the housing-related employment sectors listed in Table 1, 39 percent are in the super-sectors of financial activities and professional and business services, which generate a high level of demand for office space versus other types of real estate. Of the technology-related employment sectors listed in Table 2, 64 percent are in the office-intensive sectors of information or professional and business services. Housing, although accounting for a larger share of total employment, has a smaller fraction of its jobs in office buildings compared to technology industries. Still, this accounts for only part of the difference. Another reason is that many of the housing-related white collar jobs are based in properties not considered to be part of the competitive office inventory, such as small owner-occupied office buildings, shopping centers and even converted single family houses. An additional possibility is that housing-related tenants require less space per employee than technology industry tenants. That was the case during the tech bubble in the early part of this decade when tech tenants were leasing space in advance of significant hiring. It could also be true in the pre- and post-bubble years if tech companies are using larger workspaces as a means to attract highly educated knowledge workers in a tight labor market, such as was seen in the late 1990s and to a lesser extent today. The housing industry is more mature, arguably with less need to compete for high-priced talent with specialized skills, and therefore less likely to offer large workspaces to its employees.

Office Leasing % of Total

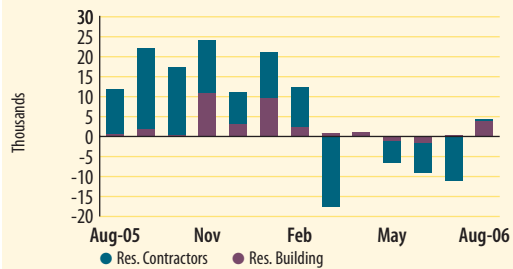


Source: Grubb & Ellis

Forecast

The economic sectors of residential building and residential specialty trade contractors began shedding jobs in February, according to the U.S. Bureau of Labor Statistics.

Residential Construction Employment Change Seasonally Adjusted, M/M



Source: Bureau of Labor Statistics

Of the housing-related sectors identified in Table 1, these are the only two that are seasonally adjusted by the Bureau of Labor Statistics. Therefore, they are the only sectors where a reliable month-to-month trend line is available. Since peaking in January, seasonally adjusted employment in these two sectors combined has fallen by less than one percent.

If the housing market were to repeat its performance of 1991, its last significant downturn, the labor market could expect to see housing-related payroll employment fall by 5.9 percent, comprised of an 8.5 percent drop in construction and materials employment and a 1.9 percent drop in services employment, including realtors, loan officers, title and casualty insurers appraisers, architects and engineers, and other related service jobs likely to be located in office space.

If the current level of housing-related employment, averaging 12.1 million jobs through the first half of 2006, were to fall by 5.9 percent, the labor market would see 716,000 payroll jobs evaporate, 42 percent of the total number of payroll jobs created over the 12-month period ending in August 2006. This would have a significant ripple effect through the economy.

If housing-related service employment were to fall by 1.9 percent in a replay of 1991, these sectors could see a combined loss of around 92,000 office-using jobs, which could generate up to 16 million square feet of negative net absorption assuming a ratio of 175 square feet per employee. This is equivalent to 21 percent of the total amount of office space absorbed over the past four quarters, from mid-year 2005 to mid-year 2006.

A housing market decline matching the recession year of 1991 should be considered a worst-case scenario, however. Most analysts expect the economy to continue growing through the remainder of 2006 and 2007 although at a slower pace than the past few quarters. The decelerating housing market presents a risk to the economy, along with high oil prices and the potential for further interest rate increases, but a recessionary scenario may be too pessimistic. If the housing market were to shrink by half its decline in 1991, that would result in a more cushioned impact on the labor market as well as a smaller impact on the office market, perhaps a decline of around 8 million square feet of occupied office space or just 10 percent of the total amount of space absorbed over the past four quarters.

Table 3 shows the top 10 housing industry markets and technology industry markets in terms of their impact on the local office leasing market. The percentages in Table 3 are the share of total office leasing activity represented by these two industries from 2000 through the first half of 2006.

**Table 3: Percent of Total Office Leasing Activity by Housing and Tech Tenants
Top 10 Markets
2000 Through 2006-Q2**

<i>Housing-related Leasing Activity</i>		<i>Tech-related Leasing Activity</i>	
Riverside, CA	35%	San Mateo, CA	48%
Des Moines, IA	27%	Boston, MA	42%
Orange County, CA	21%	San Jose/Silicon Valley, CA	41%
Las Vegas, NV	21%	Seattle, WA	34%
Sacramento, CA	19%	NJ - Northern & Central	32%
Oakland/East Bay, CA	19%	San Diego, CA	29%
Phoenix, AZ	17%	Washington, DC	26%
Seattle, WA	17%	Oakland/East Bay, CA	24%
Fresno, CA	17%	Columbus, OH	24%
Palm Beach, FL	15%	San Antonio, TX	24%

The office markets most vulnerable to a downturn in the housing industry include many of the fastest growing residential markets in the West and South, located in California, Nevada, Arizona and Florida. The only market not fitting this profile is Des Moines, Iowa, which is home to a large back office center owned by Wells Fargo Home Equity.

Conclusions

- The impact of the housing slowdown on the nation's office market is likely to be modest, not enough to derail the overall recovery/expansion of the office market.
- However, the impact will vary by market, with fast-growing Western and Southern markets feeling the sharpest impact.
- The impact on the office market will be more severe if the housing market stalls out with demand plunging and prices declining instead of merely slowing down, as currently expected. Rising interest rates could be the catalyst for this pessimistic scenario. The impact could chill consumer spending, which then could ripple through the economy. These effects, together with high oil prices, could tip the economy into a recession, which then would have a dramatically sharper negative impact on the office market. However, the likelihood of this negative chain of events is perhaps 30 percent.
- Expect a slowdown in office absorption in 2007 as the economy cools, but a recession is unlikely. The office market should be able to take the impact of a slowing housing market in stride. However, landlords and investors should be aware of their exposure to housing-related tenants in their properties and their submarkets and adjust their management and leasing plans accordingly.

A View from the Field

Albuquerque	There has been no shrinkage of any office tenants related to the housing industry so far. Nothing has been heard from the landlords, so it is believed to be a non-issue at this point. Any effect in the future will be felt mainly in Class B and lower grade properties as that is where the smaller mortgage companies settled during the boom.
Atlanta	The Atlanta office market has just gotten its sea legs back after a protracted period of slow growth. The impact of the housing downturn on the local office market will be felt more in outlying areas where homebuilding has been the strongest and where the composition of the office tenant base is the thinnest and more dependent on the local population base.
Boston	Suburban office landlords anticipate that the long-term effects of the housing slowdown will be insignificant as growth in other economic sectors should offset any decrease in demand by housing-related tenants. CBD landlords do not expect to see any impact.
Chicago	Chicago's office market is very diverse and not vulnerable to a decline in what is a relatively small slice of the tenant base. Overall leasing activity is finally starting to firm in both the CBD and suburbs. Effects of the housing downturn will be isolated to specific office properties in fast-growing suburban areas with housing-related tenants on their rosters.
Cincinnati	Office tenants serving the housing market are stable now, but there is concern that some will downsize or leave the market. There has been a slight slowdown already. These users are fairly small and tend to be located in second tier A and B buildings.
Colorado Springs	Mortgage companies started consolidating one to two years ago. These spaces are less than 6,000 square feet. Homebuilders remain somewhat bullish because base realignment will bring up to 12,000 new soldiers and their families to the market over the next few years. Rising construction costs, not the decelerating housing market, are keeping major spec office projects at bay.
Columbia, SC	While the housing boom around Columbia has slowed slightly from the last year, sales are still quite strong. The office market has not seen negative absorption due to housing-related tenants closing up shop.
Columbus, OH	The housing industry in central Ohio is slowing, but more so for new construction than resales. The slowdown is expected to have minimal impact on office absorption.
Dallas-Fort Worth	Residential lenders have been curtailing their aggressive expansion plans, but there has been little downsizing to date. Recently, Countrywide Financial acquired several buildings in Richardson's Telecom Corridor for well below replacement cost, and subsequently migrated employees from high-priced West Coast markets.
Denver	Energy and business services tenants have been absorbing office space, more than offsetting any decrease in activity from the housing industry. Most vulnerable are Class C buildings, where smaller title and mortgage companies are closing their doors. But major homebuilders and larger industry players are actually expanding in the market, including KB Home, Pulte and RE/MAX.
Detroit	The housing industry has been one of the few bright spots in metropolitan Detroit over the last few years. While home prices have not escalated as they have in Chicago or on the coasts, there will be some fallout among office tenants, perhaps enough to push absorption into the red for one or more quarters over the next year.
Fresno	Mortgage and title companies are experiencing layoffs and space reductions. These users have traditionally located in B to B+ product. The consensus in the commercial brokerage community is that unless the housing market comes to a complete halt and plunges the economy into a recession, the office sector will not be affected.
Greenville	Any prospective downturn in the national housing market is not expected to impact Greenville directly. Home prices have remained consistent during the housing boom of the last five years, although prices have increased recently due to an increase in land and construction costs.
Houston	Despite the national slowdown, Houston's housing market continues to post year-over-year sales gains. It is too early to tell whether the office market will be affected if the housing market slows. Mortgage companies seem to be asking about downsizing their space, but at least one tenant in the industry is expanding into a full floor.
Kansas City	The slowdown in the housing industry has not had much effect on the local office market. Kansas City does not experience the highs and lows of coastal markets. But landlords are viewing mortgage companies as a riskier tenant type than in previous years. The office market is not reliant on housing-related tenants, but some buildings will be affected.
Las Vegas	The market has cooled dramatically. Many resale homes have been on the market for six to 12 months. Nonetheless, the office market is still on fire with little impact visible from the housing slowdown.
Los Angeles	The Los Angeles Business Journal quotes a Century 21 franchise owner as expecting 20 to 25 percent of realty offices to close. These are typically small spaces in shopping centers or single-story office buildings on pad sites. It will be a non-issue for most of the region. Santa Clarita could be vulnerable due to strong housing construction and the diminutive office inventory.
Madison, WI	The residential slowdown has had little effect on the local office market, though it has affected the attitudes of many area businesses. The assumption is that as the residential market goes, so goes the commercial market, which is not the case at this time. The tenants most vulnerable are small mortgage companies occupying 1,000 to 2,000 square feet.
Miami-South Florida	It is too early to discern the impact of the slowing housing industry on the South Florida office market. Some housing-related tenants have scaled back on office leases, but they account for a small portion of the overall demand for office space. Industrial space could see a bigger impact than the office market.

Minneapolis-St. Paul	Not much to report here. Housing related tenants are not expected to have a significant impact on the office market. The local economy is traditionally balanced and able to absorb minor economic fluctuations.
Montana	Realtors, title offices and lenders continue to seek new locations. Bozeman has the highest level of housing-related tenants in the state, but the office market remains healthy. Kalispell, a resort area, has seen an increasing number of such tenants, and housing demand has softened, but it is not expected to significantly impact the office market.
Nashville	Nashville continues to buck the national trend with July 2006 closings up four percent compared to July 2005. Rising interest rates remain secondary to strong job growth. Demand for Class A office space remains hot, specifically in the Cool Springs submarket. Landlords are not giving out concessions in certain areas even as new construction is added, a sign of confidence in the future.
New York	Financial service firms are driving very strong market demand. The housing slowdown will have minimal impact in Manhattan. Northern New Jersey, Fairfield and Westchester counties, and Long Island could see some isolated impacts as mortgage and title companies downsize.
Omaha	To date, the slowdown in the housing sector has not had an effect on the metropolitan office market, and no impact is anticipated in 2006/07.
Orange County	Mortgage companies such as Impac and Ameriquest continue to consolidate and add sublease space, dampening net absorption in the near term. But Population growth and the diverse economy will make up for these short-term negative effects. Office landlords continue to see strong demand from a variety of other sectors.
Philadelphia	Sub-prime lender Wilmington Finance closed four of its seven call centers, including a center in nearby Newark, Del. The company consolidated into its three remaining sites, one of which is in the Philadelphia suburb of Plymouth Meeting, Penn.
Phoenix	The housing downturn is expected to have a minor impact on demand for office space, except for landlords who have builders or realtors on their tenant rosters. Overall the economy and demand for office space have been very strong.
Pittsburgh	The housing pullback is a non-issue for the Pittsburgh office market. There has been only one large mortgage company, Ameriquest, that closed its local office.
Richmond	Home construction will slow in Richmond, not stop altogether, and the excess housing inventory will be absorbed in a reasonable amount of time. Phantom and sublease office space will increase, mainly in the suburbs, with some mortgage offices closing and cubes going empty in law, title and construction firms. The impact will be mild.
Riverside-San Bernardino	Builders, mortgage and title companies and other firms are following home construction eastward as closer-in markets are built out or land is priced out of reach. For instance, Woodside Homes moved its Southern California division from Orange County to Riverside, while William Lyon Homes will open a regional office in the same building.
Sacramento	Many mortgage companies are either going or gone, their spaces being offered for sublease. There are stories of 5,000-square-foot offices now occupied by two or three employees with as many as one-half of local mortgage companies wanting to downsize or close altogether.
San Diego	Some mortgage companies are struggling, but most are hanging in there so far. Fewer mortgage tenants are in the market for office space, and the ones that are in the market or renewing their leases are doing so for shorter terms.
San Francisco	The office market in San Francisco is little affected by the housing market downturn, but mortgage and title companies in the East Bay are beginning to feel some effects. If the trend continues, these companies will start adding sublease space onto the market in 2007.
Seattle	The office market should experience little or no impact as the housing market slows. Home prices are not expected to fall but are more likely to plateau and experience modest growth of 2-4 percent, more the historical average. The office market should continue to tighten for the next two years as significant new product (that is not pre-leased) will not come online until 2008.
Tampa Bay	Surveys are turning up more than the normal amount of disconnected or non-answered phone lines in the offices of mortgage companies, title insurers and appraisers. The headcounts in these offices are slipping. This is especially true of the smaller and more recent startups. Landlords are asking these tenants for greater security requirements to cover TI costs.
Washington, DC	In terms of leases signed, the office market has seen little pullback by this tenant group. These jobs constitute less than 10 percent of the local market. Landlords are more concerned with the impact of housing on the broader economy.
Wichita	Year-to-date new and existing home sales in Wichita have increased since 2005. A major downturn in the local housing market is considered unlikely due to much slower price appreciation over the past few years, reducing the risk of a market-wide correction.



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