



## **PRESS RELEASE**

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### **SIOR INDEX DROPS BELOW 100 POINTS FOR THE FIRST TIME— LOSING 11.6 POINTS FROM 3<sup>RD</sup> QUARTER 2007**

**February 2008** – Year-end 2007 SIOR Commercial Real Estate Index results, compiled by the SOCIETY OF INDUSTRIAL AND OFFICE REALTORS (SIOR) and evaluated by the NATIONAL ASSOCIATION OF REALTORS (NAR), posted the steepest quarterly decline since SIOR began its indexation project in late 2005. The national index, which measures 10 variables pertinent to the performance of U.S. industrial and office markets, dropped for a third quarter in a row to an overall total of 95.6 points. This 11.6 point drop placed it 4.4 points below the 100 point criteria that represents a balanced office and industrial marketplace. This is the first time the Index has dropped below 100.

The SIOR Commercial Real Estate Index is a diffusion index (see Methodology) where a score of 100 indicates markets in balance. A score of 95.6 reflects conditions that are less favorable for landlords and sellers.

Almost 600 SIOR members provided their views on year-end 2007 market conditions in their respective markets in a mid-January survey. Sixty percent of respondents indicated that the national economy is having a negative impact on their market. New construction is generally at or below historic levels, and 45 percent of participants indicated that tenant concessions were above normal--up from 33 percent last quarter.

#### **Office Market**

The Office Market, for the second quarter in a row, experienced the most significant Index decrease—dropping 12.9 points from 3<sup>rd</sup> quarter 2007 to 95.6. This is a 21.8 point drop from its spring 2006 high of 117.41. The decrease represented a decline of office leasing and sales transactions.

#### **Industrial Market**

The Industrial Market Index took a huge year-end 2007 hit dropping 12.2 points to a low of 95.1—scoring even lower than the office market. The slowdown in industrials is the result of diminishing leasing and sales activity.

#### **Regional Breakdown**

The **West** holds the dubious distinction of experiencing the greatest fall from its February 2006 high of 136.9—dropping to 98.1. Markets in Southern California are reeling from the fall of the US dollar and a resulting fall-off in imports, particularly from China. Markets in Nevada and Arizona have been severely impacted by the housing crises and this has spilled over to the general economy. The same could be said for the California market where the industrial markets are very much tied to the housing industry. The bright spot is the solid growth numbers seen in Salt Lake City and Denver.

Although dropping 11.3 points, the **South** is the only region to hold onto an Index score indicating a balanced market—102 points. Atlanta, Georgia, and Research Triangle, North Carolina, showed the most economic resiliency. Florida, which helped to keep the regional score high in third quarter 2007, lost its momentum by year-end.

The **Northeast** experienced the greatest quarterly decline—falling 13.5 points to 94. Layoffs on Wall Street and a decline in imports coming into the ports of New York and New Jersey are the main cause for much of this downturn in market activity. Sublease space in many Northeastern markets is hurting the office market in particular. While there is some good news—ING moved into a 475,000 square foot headquarters building in Hartford, good news is not region wide. Concerns about the subprime fallout and Wall Street are prompting a slowdown in leasing activity. While the falling dollar makes US products more attractive, particularly to the Europeans, the need for warehouse/distribution space is not as great as it is when we are exporting as compared as to when we are importing.

The **Mid-West** is the only region that has continually tracked below 100 in the Index. This quarter it fell 8.1 points to 84.8—holding its place as having the worst conditions of any region in the country. Much of this has to do with slowing economies in Michigan, Ohio, and Indiana. The automotive manufacturing sector is hurting Michigan and traditional manufacturing areas are in distress in Ohio and Indiana. . This market continues to pull the entire Index down as other regions' scores are in the low to mid '90s to 102.

#### 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 measure 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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