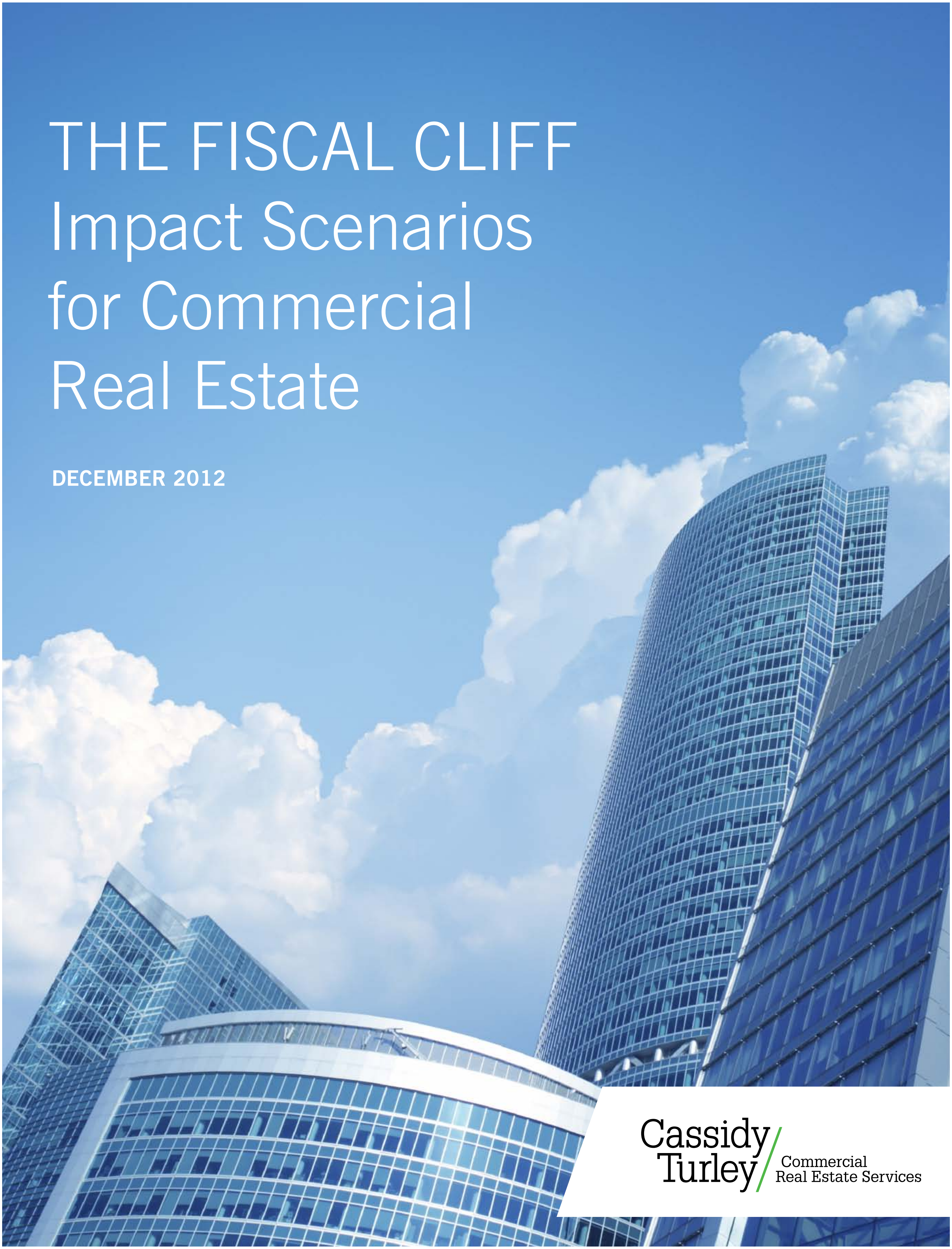

THE FISCAL CLIFF
Impact Scenarios for Commercial Real Estate

DECEMBER 2012

Cassidy Turley
Commercial Real Estate Services

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Impact Scenarios for Commercial Real Estate

Fiscal Cliff? Maybe. Fiscal Drag? Definitely.

Impact Scenarios for Commercial Real Estate

About This Study

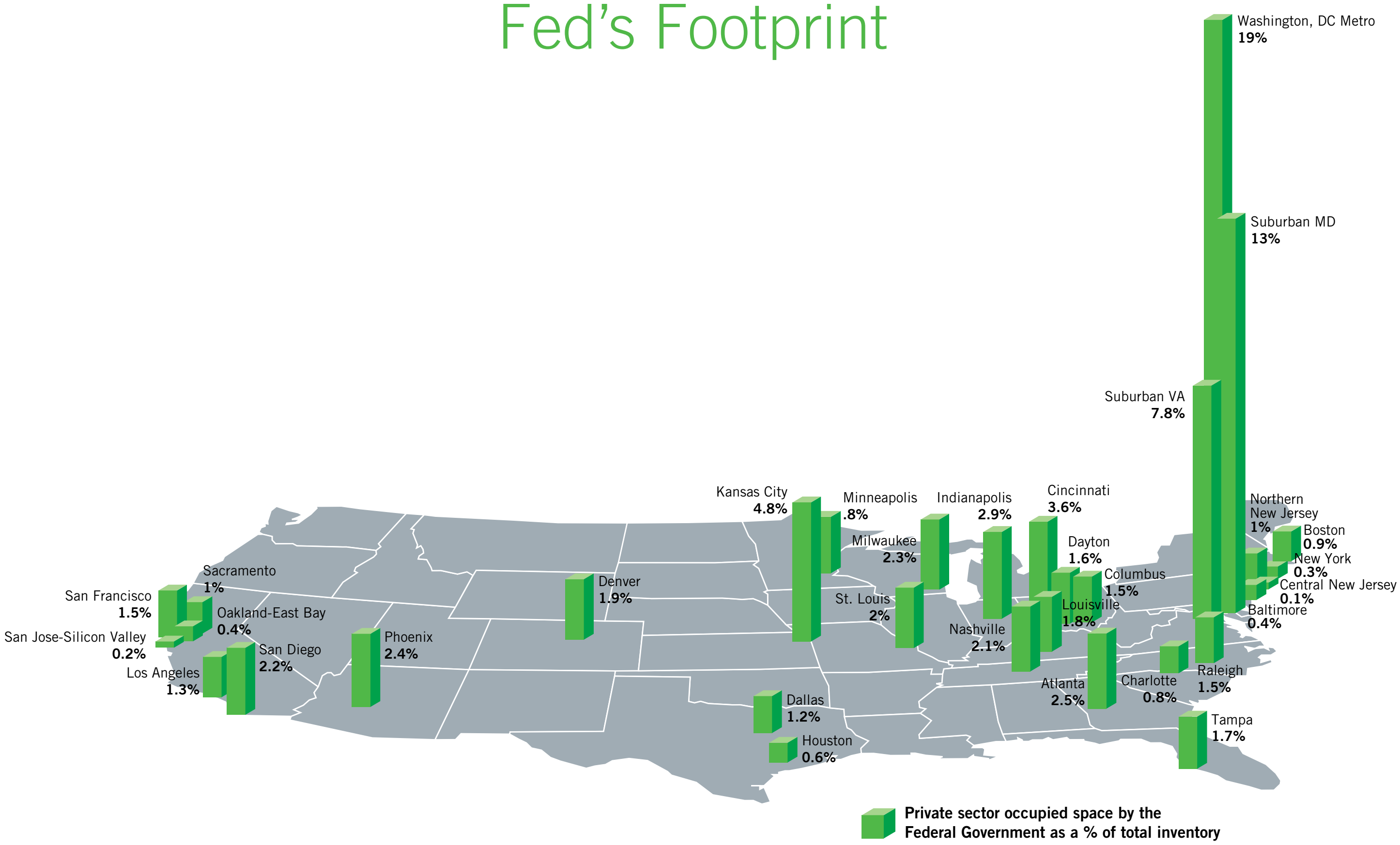
This is Cassidy Turley's second comprehensive study on the potential impact of future U.S. fiscal policy on the commercial real estate sector. At the time of this writing, negotiations to avert the fiscal cliff have already begun. The debate on how to address the U.S. federal deficit without seriously harming the fragile economic recovery has already dragged on for several days and weeks; it may last months. If policymakers fail to change the current law, the U.S. economy will likely slide back into a recession in the first half of 2013.

Equally important, policymakers must finally agree on a credible approach to the federal budget that will reduce the long-term deficit and put the U.S. on a path towards fiscal sustainability. Until this is achieved, businesses will curb their investments in growth (such as hiring and increasing capital spending), corporate strategic planning will be put on hold, and the commercial real estate recovery will continue to disappoint.

The "fiscal cliff" and "sequestration" will certainly affect a wide variety of sectors and regions throughout the country, should they occur. The potential sequestration-related budget cuts could deal a significant blow to the Washington, DC region's economy. Still, the impact of federal spending cuts on the local real estate markets stretches far beyond the nation's capital. The list of markets with significant exposure to sequestration cuts – including St. Louis, San Diego, Los Angeles, Sacramento, Baltimore, – is disconcertingly long. The most significant hit to the economy would come from the expiration of the Bush-tax cuts. That alone would drain $280 billion out of the U.S. economy in 2013, which would negatively impact consumer spending, business profits, and ultimately lower demand for commercial real estate in many markets. Our study finds that should the fiscal cliff be allowed to occur, 23 out of the 30 metropolitan statistical areas (MSAs) tracked will experience at least a mild recession at some point in 2013.

On the upside, the probability of the fiscal cliff actually occurring is low. It is almost an irrationally pessimistic view to assume lawmakers will not do what they need to in order to prevent another recession. But it is equally irrational to assume that fiscal policy will be anything other than a drag on U.S. economic growth -- at least for the next few years. This study gives an overview of what markets have the greatest and least exposure to the inevitable fiscal drag.

Fed's Footprint



Source: GSA, Cassidy Turley Research

Fiscal Policy's Connection to CRE

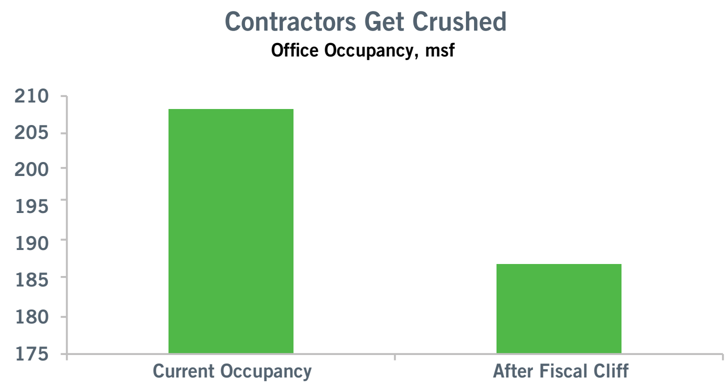
The U.S. Federal Government, for all of its controversy and drama, plays a critical role in our national economy. In 2012, gross consumption and investment by the government sector totaled $2.49 trillion, the equivalent of 18% of real gross domestic product (GDP). The Federal Government accounts for nearly 8% of that total, while state and local governments account for 10%. For context, $2.49 trillion is larger than the entire GDP of most countries in the world except for China, Japan, Germany and France.

Its sheer size means that the Federal Government has a major impact on commercial real estate markets across the country. The Federal Government employs 2.8 million civilian workers in the United States. Federal agencies lease 167 million square feet (msf) of privately owned office space across the U.S., equal to 3.3% of total office inventory. For obvious reasons, the Federal Government is the most prominent tenant in the District of Columbia, occupying nearly 20% of private-sector office space. Outside of the DC metro, the Federal Government has a much smaller presence, occupying an average of just 1.7% of total office inventory.

However, the more significant impact comes from commercial real estate's link to government contractors. More than one out of every six dollars of federal government spending goes to government contractors (also known as "procurement spending"). In FY 2012, nearly $450 billion was allocated to contractors in support of the Federal Government's strategic goals and objectives (65% related to defense, 35% to non-defense). The top 100 largest contractors accounted for 66% of total federal procurement spending.

Government contractors are a major tenant in many commercial real estate markets. In our study, we estimate that the top 100 government contractors occupy a total of 208 msf of office space in the United States. That is nearly equal to the total office inventory of the entire Dallas metro area. Under the sequestration scenario, government expenditures for contractors will be reduced by 9% in 2013. The contracting world would be turned on its head, resulting in massive layoffs. Assuming demand for office space by such government contractors drops by a proportionate amount to the sequestration cuts, then potentially 18.7 msf will be rendered empty across the U.S. This does not include the other 44% of smaller government contractors whose demand for space would also shrink due to the cuts.

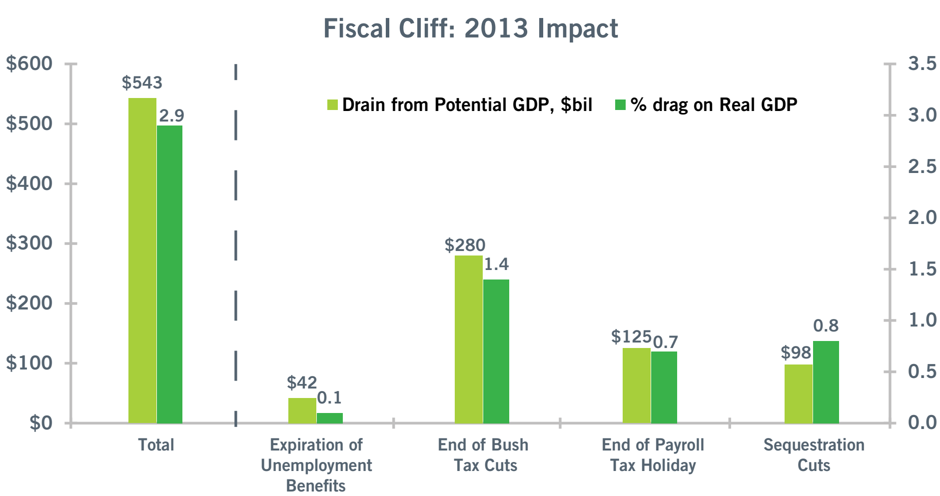
The outcome could be even worse than what we are currently estimating. The great unknown regarding the fiscal cliff is the impact it will have on business and consumer confidence. Under the fiscal cliff scenario, cuts in federal spending would take their toll, by varying degrees, on sentiment across all metros. It is reasonable to assume that most metros would experience at least some decline in consumer spending and consumer confidence. That in turn would affect businesses bottom-line profitability, and thus creating an additional drag on demand for office space.



Source: GSA, Cassidy Turley Research

Fiscal Cliff: What Is It Again?

Before we review which markets are most at risk, let's discuss what the fiscal cliff actually means. Two key components define the fiscal cliff: spending cuts and tax increases. Under the terms of the Budget Control Act of 2011, automatic procedures will go into effect on January 2, 2013 that will reduce both discretionary and mandatory spending during the coming decade. Reductions (cuts) in federal spending will total $984 billion and will be spread in equal dollar amounts over the next nine years, 2013-2021, or $109 billion per year[i] with cuts made equally across discretionary defense and non-defense programs. It is worth noting that the "automatic" procedures for 2013 are quite different than those for the remaining eight years. For 2013, budget cuts will be achieved through automatically cancelling a portion of budgetary resources (a process known as sequestration) for most discretionary programs. From 2014 to 2021, the reductions will be achieved by lowering the caps on discretionary spending programs.[ii] So unlike what will happen in 2013, there will be no automatic across-the-board cuts. Instead, the reductions will be determined by the Congressional Appropriations Committees within the confines of the caps that were established. Sequestration in 2013 will result in actual spending cuts, meaning defense spending will decline from $554 billion in 2012 to $491 billion in 2013, and non-defense spending will decline from $506 billion to $462 billion in 2013. In 2014 and beyond, discretionary spending will grow slowly from the reduced 2013 levels (but again it will be $109 billion less than what was originally budgeted for).



Source: CBO, Capital Economics

If policymakers do not come to an agreement before December 31 the combination of spending cuts and tax increases will drain $543 billion out of the U.S. economy in 2013, according to the Congressional Budget Office (CBO). Tax increases account for about two-thirds of the fiscal drag, and the sequestration cuts make up the bulk of the rest. As soon as we "go over the cliff," taxes would go up for nearly everyone – and would be evident in workers' very first paychecks in January 2013. Consumer spending would slow immediately. Thereafter, effects snowball: spending slows, business profits decline, job growth stalls, confidence plummets, consumer spending falls even further – creating

On the tax side of the equation, if Congress does not act, the following will happen on January 2, 2013[iii]:

- The top tax rate on ordinary income rises from 35% to almost 44%
- The top tax rate on capital gains rises from 15% to almost 24%
- The dividend tax rate increases from 15% to almost 44%
- Estate tax exemption drops from $5M to $1M and tax rate rises from 35% to 55%
- Expiration of the 2% Social Security payroll tax cut
- Expiration of federal unemployment benefits

a negative feedback loop. The impact of sequestration cuts would also take effect immediately. On January 2, 2013, discretionary spending programs would be reduced by roughly 9% across the board. Thus, federal agencies and government contractors would begin cutting staff immediately and furloughing employees in order to work within the new parameters of a smaller budget.

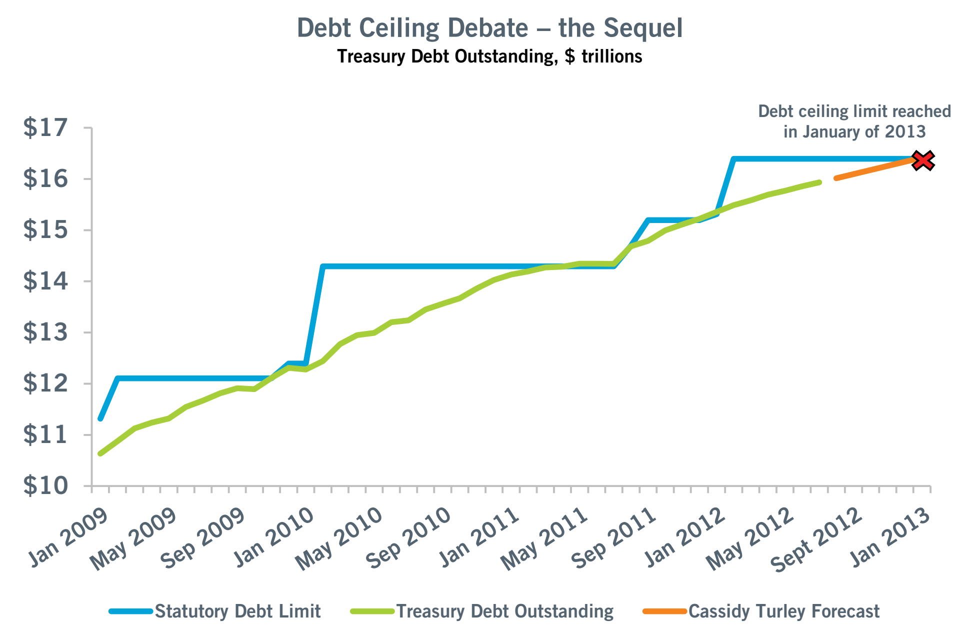
The net result of all of this is that real GDP would be 2.9% lower than it would otherwise be if current policies were extended next year[iv]. Recall, the U.S. economy has been growing only at an average annual rate of 2.0% throughout this recovery (2009-2012). Thus, the estimated 2.9% fiscal drag on growth, would, in all probability, sink the U.S. economy back into recession next year. The CBO estimates that real GDP would decline by 0.3% in 2013 under the fiscal cliff scenario. The drop in economic output would result in 800,000 net job losses by the end of the year[v].

Most Likely Scenario

Given that a recession would surely ensue if the fiscal cliff occurs, it is most likely that policymakers will act to avert the cliff. In our baseline scenario, we assume that lawmakers will sign a short-term budget resolution in late December 2012 that will extend the Bush tax cuts (for most) and resume similar spending levels out for the next three to four months. As part of such a short-term deal, a framework will be created that will be the basis for a longer-term budget deal that will be settled at a future date. It is also worth noting that even if lawmakers fail to reach an agreement in 2012 – and we “go over the cliff” -- the new Congress that takes office in early January can change policy retroactively. Indeed, the longer we go without a no long-term deal, the weaker the economy will become, creating an even greater sense of urgency to scale back the cuts and tax hikes.

But the current stalemate cannot go on forever. The Federal Government is quickly approaching its debt ceiling limit – the maximum amount it can borrow. The current statutory limit is $16.394 trillion – set by the Budget Control Act of 2011. As of December 13, 2012, the portion of the public debt subject to the legal limit was $16.3 trillion. Based on the current trajectory of public debt, the U.S. Treasury will hit the ceiling in either late December or in early January 2013. Similar to what happened last year, the Treasury Department will likely deploy “extraordinary measures” (e.g., halt re-investments in federal-employee pension funds) to keep the government fully funded for an additional two to three months. By March of 2013, the Treasury will likely run out of accounting gimmicks. That will be the next day of reckoning. Either policymakers will finally deliver on a “grand plan” and raise the debt ceiling limit, or the U.S. government will begin slashing government spending or defaulting on certain debt obligations.

It shouldn’t come to that. Both Democrats and Republicans in the Congress have taken steps towards each other’s positions in recent budget negotiations. In light of the November election results, Republicans are now “prepared to put revenue on the table” as part of the deficit reduction plan. As of this writing, policymakers were inching towards agreeing that tax rates would go up and deductions would be limited on people making $250,000 or more. However, that tax agreement hinges on significant curbs on federal spending. The cuts will either need to come from discretionary spending (defense & non-defense programs) or from entitlements. From the former, there isn’t much juice left to squeeze. Discretionary spending as a percentage of GDP is already approaching its lowest share of GDP in 60 years[vi].



Source: Moody’s Analytics, Cassidy Turley ‘s Research

Real progress from the spending cuts side will therefore likely come from reforming some or all of the big entitlements: Social Security, Medicare and Medicaid. On that score, there has been progress. The White House has proposed trimming federal and military retirement benefits as well as agriculture subsidies[vii]. In addition, there have been discussions about raising the eligibility age for Medicare, and generally altering entitlement programs such as Social Security so that such programs are less generous for the wealthy.

Just Get it Done

If policymakers can work it all out, the U.S. economy is ready to take the recovery the rest of the way. Throughout all of the political theatrics, the U.S. economy has been stunningly resilient. Real GDP in the third quarter of 2012 was revised upward to a reasonably healthy 2.7%. The U.S. economy has been creating a respectable 173,000 net new nonfarm payroll jobs per month since the summer slowdown. Economic indicators for the final three months of 2012 look encouraging. In November, the Conference Board's Consumer Confidence Index rose to its highest level in five years. Consumers have never been more confident in this recovery then they are currently. The housing recovery continues to impress. Home sales are the highest in five years. Home prices are rising in 100 out of 132 metros tracked. Suddenly, housing is poised to contribute potentially 1% to GDP growth for the next few years, as it typically does during recovery periods.

Indeed, the stage is set for a real recovery to emerge. Much stronger growth for 2013 is still possible; real GDP growth of 2.5% to 3% for next year can be achieved, and 3% to 4% in 2014 is not a stretch given the latest trends in the U.S. economy. Against that economic backdrop, demand for office space could be 30% to 40% higher than it has been throughout this recovery. It is time for policymakers to put aside partisan bickering for the good of country, and just get it done.

Notable Statistics

73% Public Debt as a % of GDP.

35% is commonly accepted to be sustainable.

2.8 million civilian federal workers in the U.S, representing 2.1% of the total workforce. The historical average back to 1939 is 4%.

380,000 fewer people working for the Federal Government today than it did in 1990.

7.9% Discretionary spending as a % of GDP; approaching lowest levels since 1950.

4.3% of GDP on Defense, and **3.6%** on Non-Defense spending.

$3.6 trillion the amount of deficit reduction that needs to occur over the next 10 years to achieve fiscal sustainability.

-1.3% U.S. Real GDP in the first half of 2013 if the fiscal cliff is allowed to occur.

800,000 jobs lost in 2013 due to the fiscal cliff. Unemployment would end the year at 9.1%.

18.7 msf of contractor space that could be rendered vacant across the country due to the fiscal cliff.

+90 bps the increase in national office vacancy rates from what they would be if the cliff were avoided

-1% fall in national office rents if the fiscal cliff is allowed to occur.

Atlanta, GA

EXPOSURE TO FISCAL CLIFF

Overview

Atlanta was struck particularly hard by the great recession, but it is finally making steady progress in the recovery. Construction across this metropolitan area was going strong when the downturn struck, paralyzing particularly the residential market. But the metro's economy is resilient and quite diversified, and one that has become particularly popular with growing sectors such as entertainment, education and technology/biotechnology. Personal income growth is expected to move higher by 4 to 7.5% per year over the next four years. Any tax increase would obviously dampen consumer spending that might otherwise rise with that income. For its market size, Atlanta does have significant occupancy by the federal government (from military installations to the Centers for Disease Control and Prevention) though only 2.5% is within the privately held office market.

Outlook

There is no doubt that the fiscal cliff will damage gross metro product (GMP) and negatively impact this metro's job growth in 2013 -- though not severely enough to push the Atlanta market into recession. Net absorption, which has been on the rise across the area, would likely move into negative territory. But commercial construction has been more or less in check since the recession. Absent any compromise on the fiscal cliff, the vacancy rate would rise to 20%, although that is within the historical average for a market which thrives on new product and continues to expand into the exurbs. Atlanta also benefits from its home state of Georgia which has its fiscal house in good order due to relatively strong (conservative) budgets along with growing state tax revenues.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	1.6%	4.1%
Job Growth	-11,800	57,800
Unemployment Rate	8.6%	8.2%
Office		
Net Absorption (SF)	-497,000	2,851,000
Vacancy	19.0%	17.6%
Rents – Avg. Asking	$18.64	$18.86
Rents – Annual Growth	-0.2%	1.0%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	1.9	#4
% > $200k Income	4.7%	#17

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

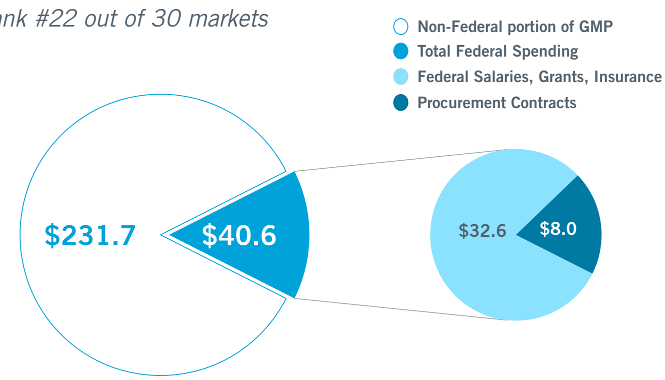
Federal Employment	47,100
% of Total Workforce	2.0%
Government Private Occupied Space (SF)	4,907,000
% of Total Inventory	2.5%
Demand (avg.annual gross leasing from Gov't, SF)	258,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $272 BILLION

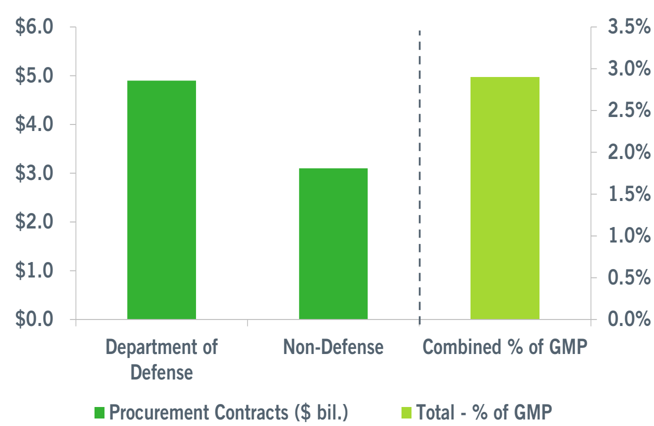
15% Federal Spending as % of GMP

Rank #22 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Baltimore, MD

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts LOW RISK — HIGH RISK

Tax Increases LOW RISK — HIGH RISK

Overview

The Baltimore region shares some of the economic risk that nearby Washington DC is currently facing as the deadline for the potential fiscal cliff approaches. Federal spending accounts for 29% of Baltimore's gross metro product (GMP), indicating that the region will not be immune to any negative consequences resulting from the fiscal cliff. An increased government presence at Aberdeen Proving Ground and Fort Meade following the recent Base Realignment and Closure Act movement has led to recent increases in local federal spending. Any changes to federal spending should, however, be slightly offset by the fact that only 4% of Baltimore's workforce is government employees. Baltimore will also be slightly protected from the effects of the fiscal cliff due to the fact that health care is a major economic driver in the region. The Affordable Care Act will help insulate the industry, and subsequently the Baltimore economy, in the coming years.

Outlook

Should the fiscal cliff occur, the Baltimore commercial real estate market could see anywhere between 300,000 and 500,000 SF of office space returned to the market, bringing the vacancy rate to around 19%, the same level as the beginning of 2012. Demand for office space has been relatively strong in 2012 with more than 900,000 SF of positive absorption occurring in the Baltimore metro. Speculative development has been light with the bulk of the new construction projects concentrated around defense contractors. These contractors have been reducing workforce and preparing for at least some cuts to federal spending that will likely take place in 2013 and beyond.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	-1.0%	1.8%
Job Growth	-7,400	5,900
Unemployment Rate	7.8%	7.3%
Office		
Net Absorption (SF)	-310,000	817,000
Vacancy	19.0%	18.1%
Rents – Avg. Asking	$21.47	$21.56
Rents – Annual Growth	-1.4%	-1.0%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	1.0	#12
% > $200k Income	7.0%	#9

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

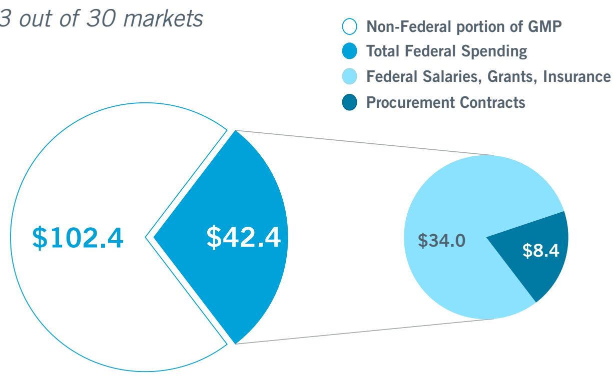
Federal Employment	52,300
% of Total Workforce	4.0%
Government Private Occupied Space (SF)	348,000
% of Total Inventory	0.5%
Demand (avg.annual gross leasing from Gov't, SF)	18,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $145 BILLION

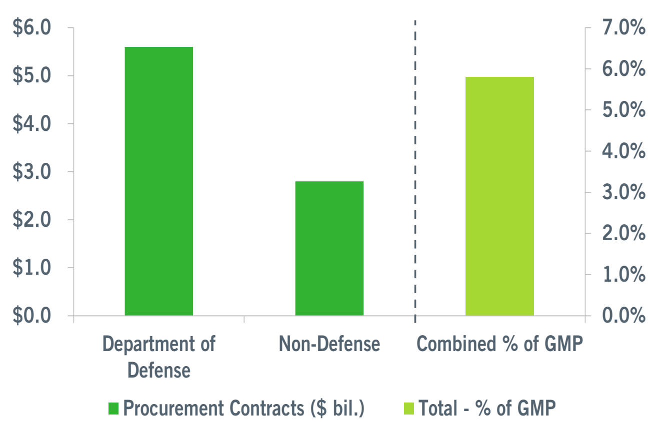
29% Federal Spending as % of GMP

Rank #3 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



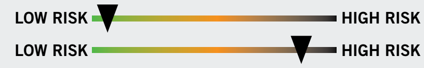
Source: Consolidated Federal Funds Report, 2010

Boston-Cambridge, MA

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts

Tax Increases



Overview

The impact of fiscal policy changes is a mixed bag for the Greater Boston metro area. Only 8% of Boston's economy is linked to federal spending, which ranks very low compared to other markets. In terms of the sequestration cuts, the most significant impact would likely be felt by Boston's education and healthcare industry. The Federal Government could potentially slash some portion of the $3.1 billion in federal research and development grants over the next five years. As it currently stands, nearly half of those funds go to Boston's numerous hospitals and universities for research. However, the most significant impact is likely to come from tax hikes – which are most likely to occur at the top. Nearly 9% of all Boston households earn $200,000 or more. This puts Boston in the top one-third of markets that will be hit the hardest if the Bush tax-cuts are allowed to expire on the top income brackets.

Outlook

Under the fiscal cliff scenario, we estimate that Boston will experience only a mild recession. However, given the unlikelihood that lawmakers will allow this dark scenario to occur, it has been "business as usual" for most of the regions firms. Demand for lab and R&D space remains steady, and it is not expected to decline any time in the immediate future. Under our most probable scenario, the fiscal cliff will be averted, and the Boston metro will go on to create 12,900 net new jobs in 2013. This will be enough growth to generate over 500,000 sq of demand for office space, and vacancy will continue to erode.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.2%	2.5%
Job Growth	-5,800	12,900
Unemployment Rate	6.4%	5.9%
Office		
Net Absorption (SF)	-331,000	512,000
Vacancy	14.6%	14.1%
Rents – Avg. Asking	$30.47	$30.53
Rents – Annual Growth	-0.8%	-0.6%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.7	#20
% > $200k Income	8.5%	#7

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

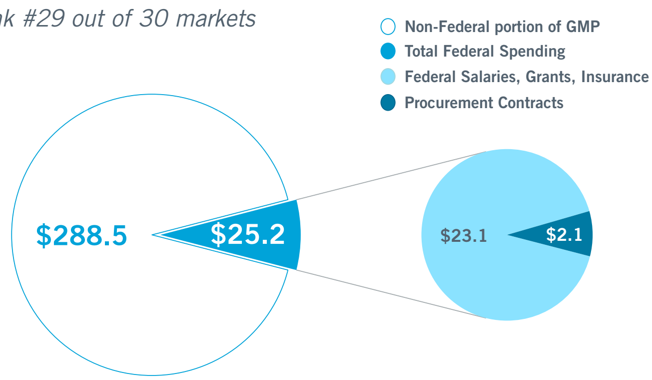
Federal Employment	38,600
% of Total Workforce	1.6%
Government Private Occupied Space (SF)	1,452,000
% of Total Inventory	1.0%
Demand (avg.annual gross leasing from Gov't, SF)	76,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $314 BILLION

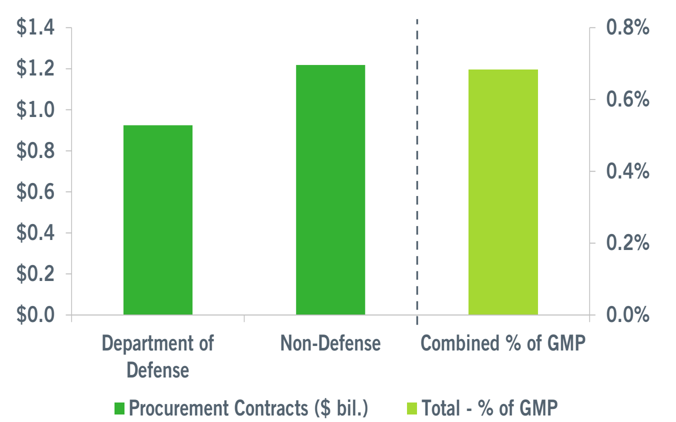
8% Federal Spending as % of GMP

Rank #29 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

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Charlotte, NC

EXPOSURE TO FISCAL CLIFF

Overview

With only 8% of Charlotte's gross metro product tied to federal spending, it might seem that the region would be unscathed by potential sequestration cuts. But beyond the trickle-down effects of a potential cut to the estimated 7,100 federal employees in Charlotte, there would be far-reaching implications on many industries, including defense, aerospace, local manufacturing, and regional transportation linkages to the Charlotte Douglas International Airport (6th in the nation for overall airport movements, funded in part by federal spending).

Outlook

With Charlotte's position as a logistics hub, suppliers in the region with direct or indirect ties to the Department of Defense would take a hit. Businesses are already responding to the uncertainty of tax rate increases by reigning in manufacturing relocations and expansions in the area. The Charlotte MSA is more fragile than most metros, with unemployment hovering at 8.9% in October 2012, and any downside risks will impose growth constraints on businesses, consumers, and government entities. Similarly, with numerous Fortune 500 companies and national banks in the area, employees' bonuses fuel a modest amount of the area's discretionary consumer spending. The proposed rise in high-income tax rates will create a negative drag on personal consumption, especially if bonuses are cut or front-loaded into 2012 to avoid 2013 uncertainty. However, the most likely scenario is lawmakers will reach a budget agreement, and the fiscal cliff will be averted. Under that context, we expect Charlotte to have a fairly sizable rebound year in 2013. The local economy will grow by a healthy 4.1%, generate 10,100 net new jobs, and absorb over 1 MSF of office space.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	2.0%	4.1%
Job Growth	-3,800	10,100
Unemployment Rate	9.6%	9.2%
Office		
Net Absorption (SF)	-160,000	1,074,000
Vacancy	12.3%	11.5%
Rents – Avg. Asking	$19.14	$19.39
Rents – Annual Growth	-0.2%	1.2%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.7	#24
% > $200k Income	4.3%	#18

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

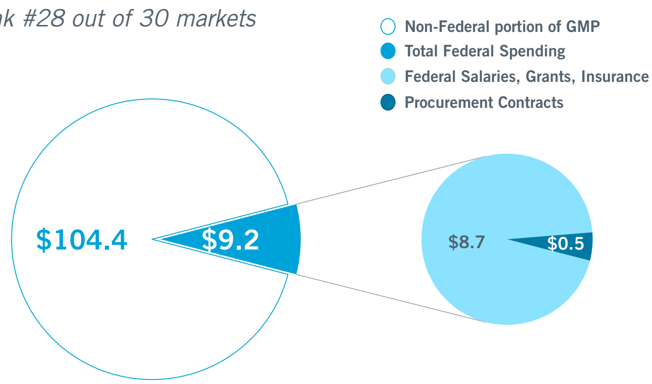
Federal Employment	7,100
% of Total Workforce	0.8%
Government Private Occupied Space (SF)	860,000
% of Total Inventory	0.9%
Demand (avg.annual gross leasing from Gov't, SF)	45,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $114 BILLION

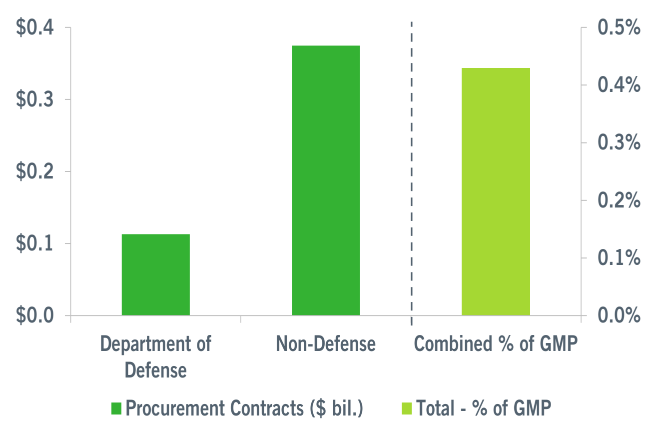
8% Federal Spending as % of GMP

Rank #28 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Cincinnati, OH

EXPOSURE TO FISCAL CLIFF

Overview

The Cincinnati market is less exposed to the proposed sequestration cuts compared to many metros. However, it would still not be immune to the sting of the fiscal cliff given the presence of General Electric and many other defense contractors throughout the region. Federal spending accounts for approximately 17% of the Cincinnati region's gross metro product, placing it 15th out of the 30 metro areas covered in this report in terms of exposure to the sequestration cuts. But federal employment accounts for less than 2% of the total Cincinnati workforce and government occupied space is only 3.4% of the total market inventory. If the Bush tax-cuts are allowed to expire for only the high income demographic, only 27,000 Cincinnati households would likely be exposed to the higher taxes, making the impact on consumer spending less severe relative to other markets.

Outlook

Based on our scenario analysis should the fiscal cliff be allowed to occur, the Cincinnati Metro would experience a 1.5% decline in its gross metro product, approximately 4,000 jobs would be lost and the market would see over 168,000 SF in negative net absorption. Increased vacancy caused by the negative net absorption would then lead to falling asking rents. It would undoubtedly be a setback for Cincinnati's office sector recovery. The most probable scenario, however, is that a short-term deal will be worked out and the sequestration cuts will be significantly scaled back for 2013. This scenario would allow the Cincinnati metro economy to continue expanding, albeit at a slightly slower rate due to the continued uncertainty. The local economy, jobs, and asking rents should all post some modest growth while vacancy rates generally continue to slowly trend downwards.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	-1.5%	1.0%
Job Growth	-4,000	13,000
Unemployment Rate	7.3%	6.9%
Office		
Net Absorption (SF)	-168,000	507,000
Vacancy	24.8%	23.4%
Rents – Avg. Asking	$18.22	$18.58
Rents – Annual Growth	-0.7%	1.3%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.8	#16
% > $200k Income	3.4%	#27

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

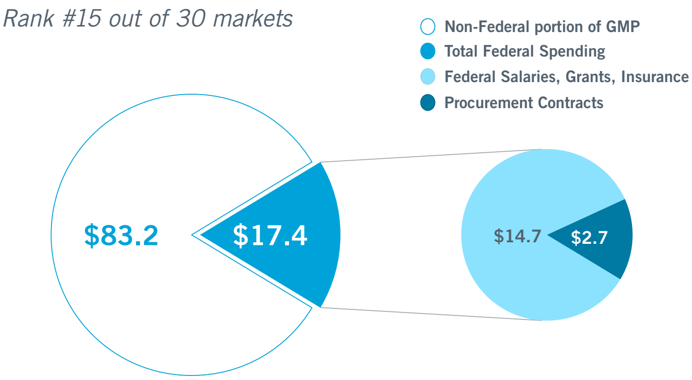
Federal Employment	16,100
% of Total Workforce	1.6%
Government Private Occupied Space (SF)	1,200,000
% of Total Inventory	3.4%
Demand (avg.annual gross leasing from Gov't, SF)	63,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $101 BILLION

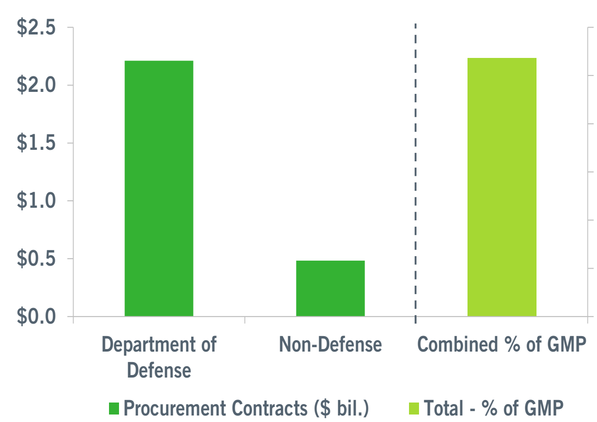
17% Federal Spending as % of GMP

Rank #15 out of 30 markets



Source: Consolidated Report of Federal Funds, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING

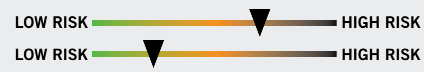


Source: Consolidated Report of Federal Funds, 2010

Columbus, OH

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts
Tax Increases



Overview

Since the last economic downturn, Columbus has slowly regrouped and its economy staggered toward the normality of previous years. But with the potential of the fiscal cliff, uncertainty about that stabilization looms. The threat of going over the cliff would be an economic drag on any market, and given that 20% of the Columbus economy is linked to federal spending, this metro does have modest exposure to the sequestration cuts. However, given the low cost of living in Columbus, the tax hikes on the higher brackets would be less damaging relative to other markets. On net, the Columbus market is likely to dodge a major recession, but it would likely experience a mild, short-term contraction.

Outlook

In the absence of any compromise on the fiscal cliff, the fledging recovery taking place in Columbus would experience a setback. The metro could lose more than 3,600 jobs, pushing its unemployment rate to more than 7%. Net demand for office space would drop by nearly 40,000 SF, compared to the more than 450,000 SF of positive absorption should we avoid the cliff altogether. Vacancy rates could also rise by more than 180 bps to rest at more than 17%. This, however, is a very unlikely scenario. What is likely is that a deal will be signed and the fiscal cliff will be averted. Under that context, the Columbus office sector recovery should gain stronger traction in 2013.

FISCAL POLICY IMPACT SCENARIOS

SCENARIOS	2013 Forecast: Fiscal Cliff *(30% probability)*	2013 Forecast: Most Probable *(70% probability)*
Economic		
Gross Metro Product (GMP)	-0.7%	1.7%
Job Growth	-3,600	10,300
Unemployment Rate	6.6%	6.2%
Office		
Net Absorption (SF)	-39,000	451,000
Vacancy	17.3%	15.5%
Rents – Avg. Asking	$17.78	$18.40
Rents – Annual Growth	-0.8%	2.6%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.7	#21
% > $200k Income	4.0%	#21

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

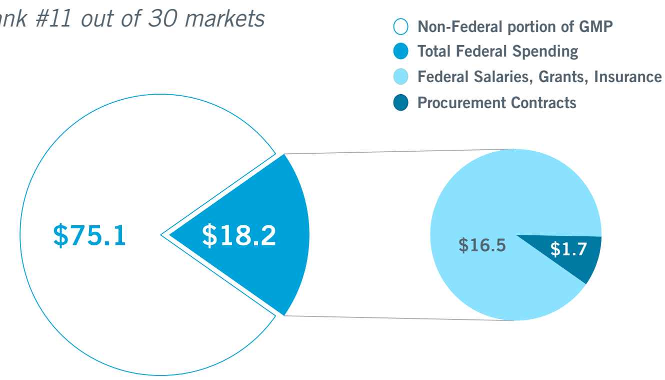
Federal Employment	14,300
% of Total Workforce	1.5%
Government Private Occupied Space (SF)	408,000
% of Total Inventory	1.5%
Demand (avg.annual gross leasing from Gov't, SF)	21,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $93 BILLION

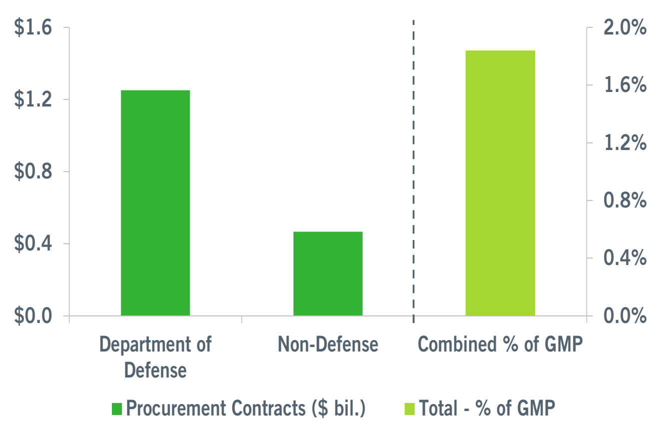
20% Federal Spending as % of GMP

Rank #11 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

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Dallas, TX

EXPOSURE TO FISCAL CLIFF

Overview

Of all the metros tracked in this study, the Dallas metro has the least amount of exposure to the fiscal cliff. Federal spending accounts for just 7% of local gross metro product (GMP), well below the metro average of 18%. That being said, Dallas is a major distribution center hub, and thus is highly dependent on consumer spending across the country. If the fiscal cliff occurs, consumer spending would fall an estimated $400 billion below potential, and economic growth would be suppressed across all markets. As a result, Dallas's GMP, which has been growing at a brisk pace of 4% over the last two years, would slow to just 1.9% in 2013. The sharp deceleration in GMP would result in 11,800 job losses in the Dallas metro in 2013, resulting in a slight drop in office occupancy levels. Under this scenario, office rents would inch down by 0.5% next year compared to rates in 2012.

Outlook

The most likely scenario is that policymakers will reach an agreement to avert the fiscal cliff. If so, there is little reason to argue that Dallas won't continue to be one of the most robust local economies in the country. Since 2010, the Dallas metro has consistently ranked in the top three nationwide in terms of job growth. In 2012, Dallas is on pace to add a hefty 57,000 net new (nonfarm payroll) jobs. Likewise, the office sector in the Dallas continues to absorb healthy chunks of space. Since 2010, Dallas has absorbed 4.3 MSF of office space, ranking it 8th out of 82 metros tracked. Expect Dallas to continue to be an above average performer in 2013.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	1.9%	4.3%
Job Growth	-11,800	47,500
Unemployment Rate	6.6%	6.1%
Office		
Net Absorption (SF)	-241,000	1,974,000
Vacancy	21.3%	20.2%
Rents – Avg. Asking	$19.82	$20.27
Rents – Annual Growth	-0.5%	1.7%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	1.5	#6
% > $200k Income	5.7%	#13

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

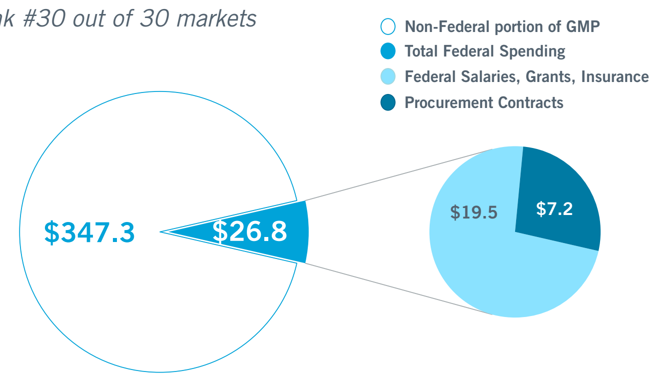
Federal Employment	30,400
% of Total Workforce	1.4%
Government Private Occupied Space (SF)	2,513,000
% of Total Inventory	1.2%
Demand (avg.annual gross leasing from Gov't, SF)	132,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $374 BILLION

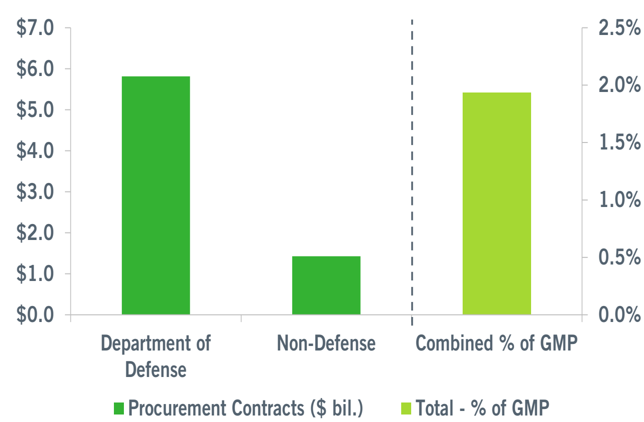
7% Federal Spending as % of GMP

Rank #30 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Dayton, OH

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts	LOW RISK ▼ HIGH RISK (marker near high risk)	
Tax Increases	LOW RISK ▼ HIGH RISK (marker at low risk)	

Overview

After a slow but steady economic recovery over the past few years, the fiscal cliff would clearly be a setback for the Greater Dayton metro area. Federal spending is a huge engine in Dayton's economy, accounting for 29% of the region's gross metro product (GMP) -- one of the top five most exposed markets to the sequestration cuts. The tax increases on the upper income brackets would be less damaging relative to other markets. Given Dayton's low cost of living, less than 3% of households earn more than $200,000 per year. Wright-Patterson Air Force Base is the largest employer in the Dayton region as well as the main driver of office space demand among defense contractors in the East submarket. Major spending cuts in Defense would affect not only public sector employees, but the thousands of government contractors that work throughout the region.

Outlook

Based on our scenario analysis should the fiscal cliff be allowed to occur, the Dayton region would go from creating roughly 2,000 net new jobs in 2012, to cutting 1,800 jobs in 2013. As a result, the office would shed 67,000 SF and vacancy would inch up. Average rental rates would also decline by 1.3%. However, the most likely scenario is that a short-term deal between the Congress and the President will be worked out, and the sequestration cuts will be significantly scaled back for 2013. In this scenario, the Dayton GMP will grow by 5.3%, and net office absorption will approach 300,000 SF.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	2.5%	5.3%
Job Growth	-1,800	8,900
Unemployment Rate	7.0%	6.6%
Office		
Net Absorption (SF)	-67,000	292,000
Vacancy	27.0%	24.4%
Rents – Avg. Asking	$14.19	$14.42
Rents – Annual Growth	-1.3%	0.4%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.3	#30
% > $200k Income	2.4%	#30

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

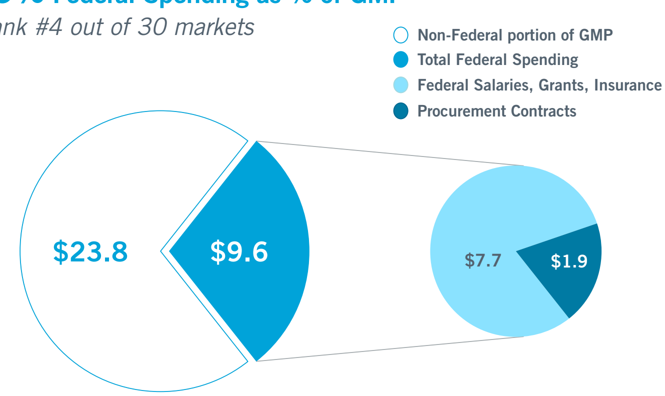
Federal Employment	18,700
% of Total Workforce	4.9%
Government Private Occupied Space (SF)	233,000
% of Total Inventory	1.7%
Demand (avg.annual gross leasing from Gov't, SF)	12,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $33 BILLION

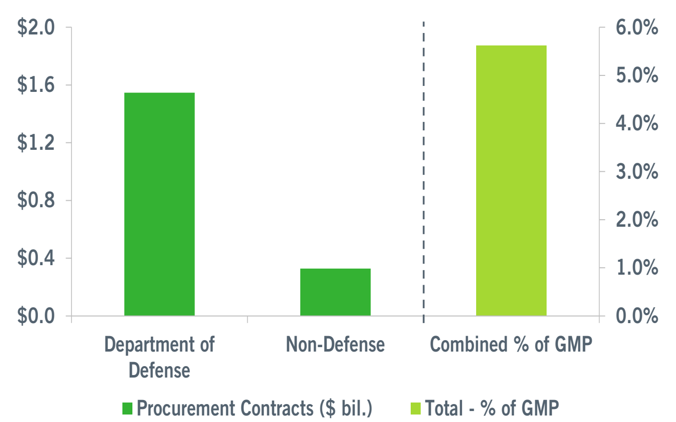
29% Federal Spending as % of GMP

Rank #4 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

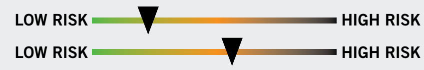
IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Denver, CO

EXPOSURE TO FISCAL CLIFF



Overview

While the Denver Metropolitan Area enjoys vibrant growth from industries like aerospace, biotechnology/healthcare and energy, these sectors are vulnerable to the sequestration cuts. A cut in defense spending or additional regulations and limitations on energy companies, especially oil companies, could have a dramatic effect on the employment base along the Colorado Front Range. Also, there are 26 different federal agencies in the Denver metro, making it the largest concentration of federal agencies outside of Washington, D.C. In fact, Denver ranks #9 out of the 30 metro areas covered in this report for the number of federal employees, housing over 28,000 in the Denver area -- three times more than the metro's second largest employer.

Outlook

If the fiscal cliff is allowed to occur, the Denver metro would likely experience a mild recession in 2013. The drop in economic output caused by the combination of spending cuts and higher taxes would cause Denver's economy to shed 6,800 jobs and office vacancy levels would inch up. However, the general consensus is that lawmakers will reach a compromise with regard to the fiscal cliff. Under the most probable scenario, we estimate that Denver's economy will grow by a healthy 3.1% in 2013, which will be enough growth to generate 21,700 net new jobs. Denver's office sector has been one of the strongest performers throughout this recovery, and assuming policymakers can work it out, we do not see this positive trajectory changing in 2013.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.4%	3.1%
Job Growth	-6,800	21,700
Unemployment Rate	8.1%	7.6%
Office		
Net Absorption (SF)	-39,000	1,480,000
Vacancy	13.3%	12.4%
Rents – Avg. Asking	$20.03	$20.17
Rents – Annual Growth	-0.4%	0.3%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	1.0	#13
% > $200k Income	5.4%	#14

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

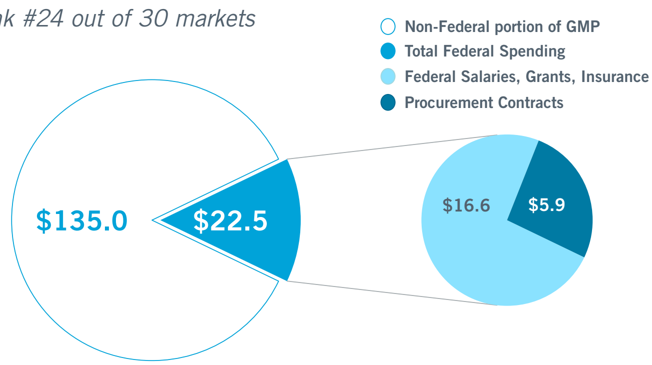
Federal Employment	28,100
% of Total Workforce	2.3%
Government Private Occupied Space (SF)	3,339,000
% of Total Inventory	2.0%
Demand (avg.annual gross leasing from Gov't, SF)	179,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $158 BILLION

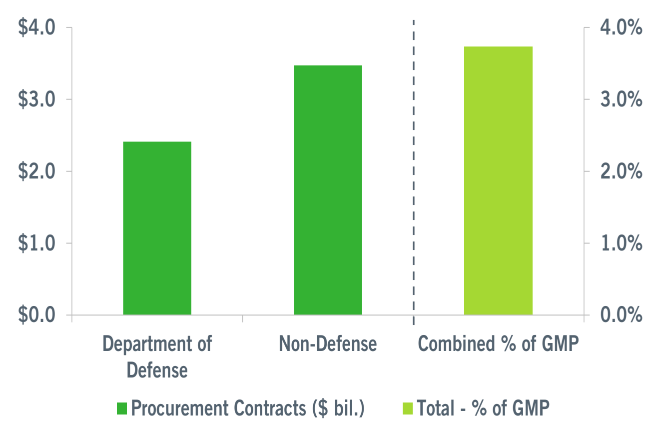
14% Federal Spending as % of GMP

Rank #24 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

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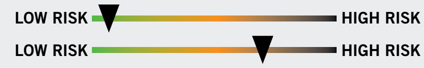
Houston, TX

EXPOSURE TO FISCAL CLIFF



Overview

Houston remains one of the fastest growing economies in the country. Major industries such as energy, health care, technology, transportation and the Port of Houston have all been contributing factors to the city's economic success. Federal spending accounts for just 9% of its gross metro product, giving the market low exposure to the proposed sequestration cuts. With federal employment a mere 1% of Houston's total work force, office space occupied by the Federal Government is minimal (only 0.6% of total inventory). Fortunately, this will act as a buffer for the Houston office sector, insulating it from the major shocks that are likely to occur in other markets due to the potential sequestration cutbacks. However, tax hikes are a larger concern. More than 6% of all households in Houston earn over $200,000 a year, placing Houston in the top third of markets in this study that will be hit hardest by the tax increases should they go up for the top income brackets.

Outlook

Since October 2011, the Houston economy has generated 95,800 net new nonfarm payroll jobs, a 3.6% annual increase. Along with job growth, Houston experienced a net migration gain of 313,800 new residents over the past five years – top in the country. If the fiscal cliff scenario is avoided, Houston will continue on its upward course and see additional growth in population, employment and robust demand for office space. If the fiscal cliff is not averted, the Houston economy will endure job losses that will result in a short-term decline in demand for office space. But even in that scenario, established Houston-based industries such as health care and energy will help the market maintain stability.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	1.2%	3.6%
Job Growth	-17,300	67,500
Unemployment Rate	6.9%	6.3%
Office		
Net Absorption (SF)	-354,000	2,700,000
Vacancy	14.9%	13.6%
Rents – Avg. Asking	$23.90	$24.82
Rents – Annual Growth	-0.9%	2.9%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	2.1	#3
% > $200k Income	6.1%	#10

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

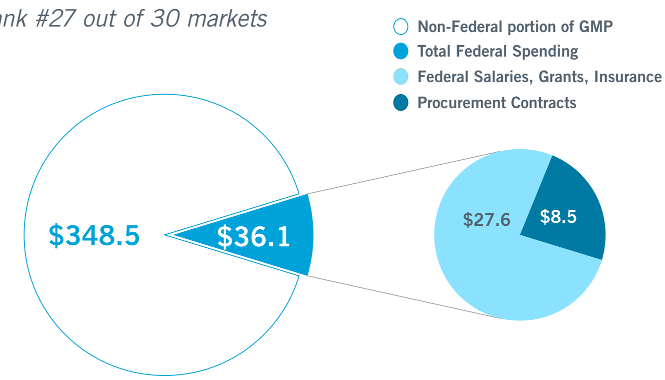
Federal Employment	27,800
% of Total Workforce	1.0%
Government Private Occupied Space (SF)	1,396,000
% of Total Inventory	0.6%
Demand (avg.annual gross leasing from Gov't, SF)	73,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $385 BILLION

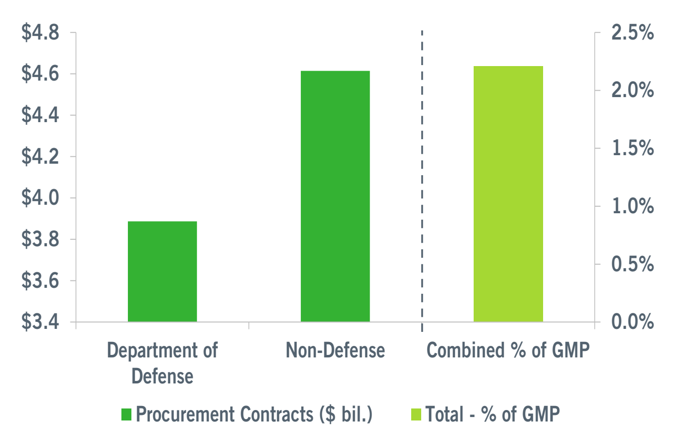
9% Federal Spending as % of GMP

Rank #27 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

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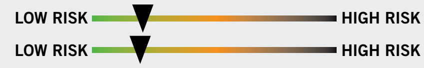
Indianapolis, IN

EXPOSURE TO FISCAL CLIFF



Overview

The Indianapolis region will not be immune from the effects of proposed tax hikes and sequestration cuts resulting from a fiscal cliff dive. Both Indianapolis, where federal spending accounts for 16% of gross metro product, and the state of Indiana as a whole would be negatively impacted by a failure to avoid the cliff. The aggregate economy, of which Indianapolis is the primary driver, could expect to see employment fall 1.2% and personal income to shrink 1.3% more than it would otherwise. Moreover, going over the cliff would include significant tax increases on Indianapolis households, ranging from $1,800 for a household earning $40,000 per year to roughly $6,500 for a household earning $200,000. The resulting drag on the Indianapolis economy would mute commercial real estate demand, with the office segment being particularly hard hit.

Outlook

Based on our scenario analysis should the fiscal cliff be allowed to occur, the Indianapolis region would see nearly 100,000 sf of office space returned to the market, thereby causing vacancy rates to rise 120 bps to 20.6%. This would effectively erase the vacancy rate improvements experienced thus far in the recovery and would be particularly burdensome for the metro's Central Business District. The most probable scenario, however, is that a short-term deal will be worked out and the sequestration cuts will be significantly scaled back for 2013. High-income earners are still likely to be subjected to higher tax rates, but the overall drag on the Indianapolis economy would be greatly diminished. Should a deal be reached, Indianapolis is quite well-positioned and should see continued growth in both employment and demand for office space.

FISCAL POLICY IMPACT SCENARIOS

SCENARIOS	2013 Forecast	
	Fiscal Cliff *(30% probability)*	Most Probable *(70% probability)*
Economic		
Gross Metro Product (GMP)	-0.4%	2.0%
Job Growth	-3,700	7,200
Unemployment Rate	7.6%	7.2%
Office		
Net Absorption (SF)	-95,000	302,000
Vacancy	20.6%	19.4%
Rents – Avg. Asking	$17.99	$18.15
Rents – Annual Growth	-0.5%	0.5%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.7	#23
% > $200k Income	3.7%	#24

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

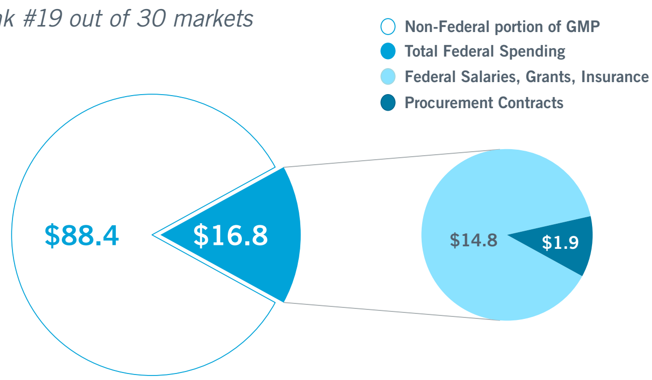
Federal Employment	16,100
% of Total Workforce	1.8%
Government Private Occupied Space (SF)	923,000
% of Total Inventory	2.9%
Demand (avg.annual gross leasing from Gov't, SF)	49,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $105 BILLION

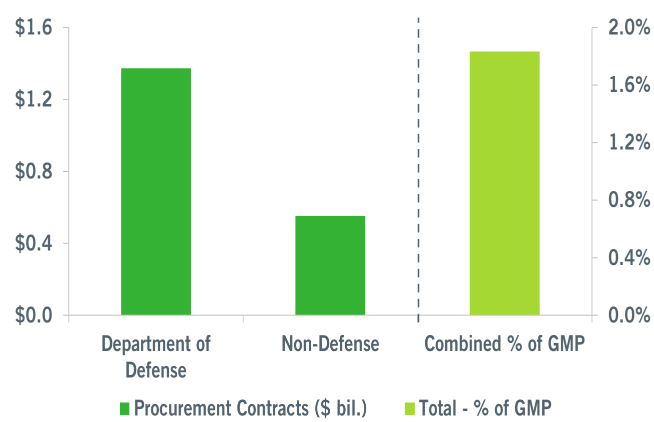
16% Federal Spending as % of GMP

Rank #19 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

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Kansas City, MO

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts LOW RISK — HIGH RISK

Tax Increases LOW RISK — HIGH RISK

Overview

Federal spending, including direct spending and through contracts, accounts for 17% of Kansas City's gross metropolitan product (GMP). The federal government is a major demand driver of commercial space, with federal agencies occupying a total of 10.3 MSF for all uses (both owned and leased). While Kansas City is certainly exposed to risks from sequestration cuts, some developments will temper that risk. The GSA recently announced plans to hire 800 additional people for the Citizen and Immigration Service and a new 1.6-miilion-square-foot plant was just completed for the National Nuclear Security Administration. However, if tax rates increased across the board, consumer spending would slow, and the impact on the region would be dramatic as retailing accounts for almost 10% of Kansas City employment base. Absent a deal on the fiscal cliff, it is likely this metro would fall into recession in early-2013.

Outlook

In the more likely event that the fiscal cliff scenario is avoided, growth in Kansas City's economy should accelerate through 2013 and into 2014. Through the first nine months of 2012 net absorption in the leasable office market was a rather anemic 145,000 SF, but more activity is occurring in owner-occupied space. The office market is also still working through its shadow space inventory. Meanwhile, the industrial market produced 1.7 MSF of net absorption through September and several transactions are in process for late-2012 and early-2013. Historically, speculative construction has been very limited in KC's industrial market. Recently, a few speculative projects have been built and several others are under consideration. This is an encouraging sign that confidence in the regional economy is growing.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	-0.6%	2.0%
Job Growth	-4,400	6,900
Unemployment Rate	6.8%	6.4%
Office		
Net Absorption (SF)	-50,000	458,000
Vacancy	22.3%	20.3%
Rents – Avg. Asking	$17.65	$17.88
Rents – Annual Growth	-1.5%	-0.3%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.8	#17
% > $200k Income	4.0%	#22

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

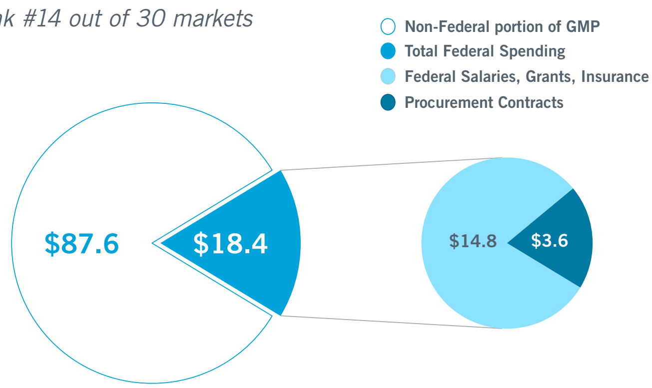
Federal Employment	28,600
% of Total Workforce	2.9%
Government Private Occupied Space (SF)	3,745,000
% of Total Inventory	4.8%
Demand (avg.annual gross leasing from Gov't, SF)	197,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $106 BILLION

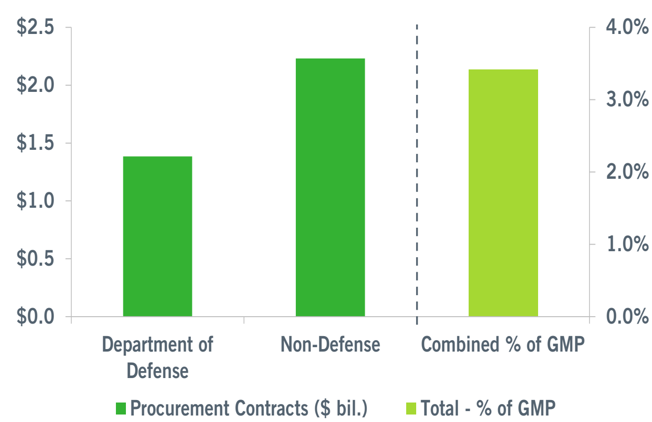
17% Federal Spending as % of GMP

Rank #14 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Los Angeles, CA

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts LOW RISK — HIGH RISK

Tax Increases LOW RISK — HIGH RISK

Overview

LA's recovery is finally gaining traction, but going over the fiscal cliff would change any positive trajectory very quickly. Los Angeles is home to many defense contractors and R&D companies and federal spending accounts for 21% of the metro's total economic output. In our rankings, LA is the 10th most exposed market to the sequestration cuts. If lawmakers fail to avert the cliff, its economy will likely fall into recession in the first half of 2013. Under that scenario, we estimate the LA metro will face 24,200 job losses causing vacancy to remain at levels 100 bps higher than where they would otherwise. Moreover, the metro's population has significant exposure to potential tax hikes should the Bush tax cuts expire for the higher income demographic. There are 185,000 LA households making over $200,000 a year.

Outlook

It is most probable that the fiscal cliff scenario will be avoided, and thus, LA's economic recovery will continue. Through October, the Los Angeles economy was on track to add 58,000 jobs in 2012. If the recovery stays on course, 2012 will one of the strongest job-producing years that LA has witnessed since the late 1990s. About half of the net new jobs being created are office-using. As a result, LA has absorbed about 850,000 sf of office space through the first nine of months of 2012. Moreover, the West LA and Tri city submarkets are performing exceedingly well, benefitting from strong job growth in technology, media and entertainment, and vacancy has declined by 50 to 100 bps in those two areas. If policymakers can come through, the Los Angeles office sector recovery is poised to accelerate in 2013.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.7%	3.2%
Job Growth	-24,200	47,600
Unemployment Rate	8.9%	8.3%
Office		
Net Absorption (SF)	-357,000	1,630,000
Vacancy	14.3%	13.3%
Rents – Avg. Asking	$29.63	$30.02
Rents – Annual Growth	-0.1%	1.2%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	3.2	#2
% > $200k Income	5.8%	#11

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

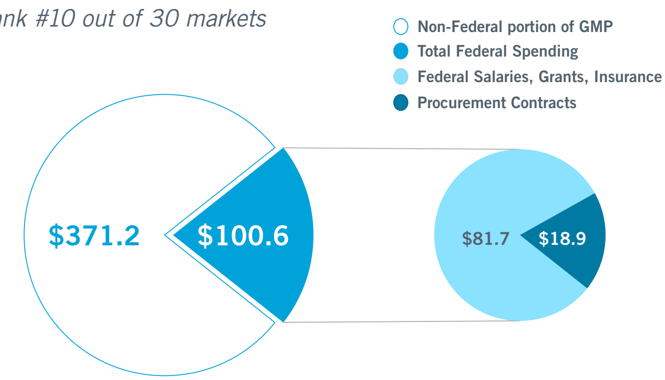
Federal Employment	60,200
% of Total Workforce	1.1%
Government Private Occupied Space (SF)	2,616,000
% of Total Inventory	1.3%
Demand (avg.annual gross leasing from Gov't, SF)	138,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $472 BILLION

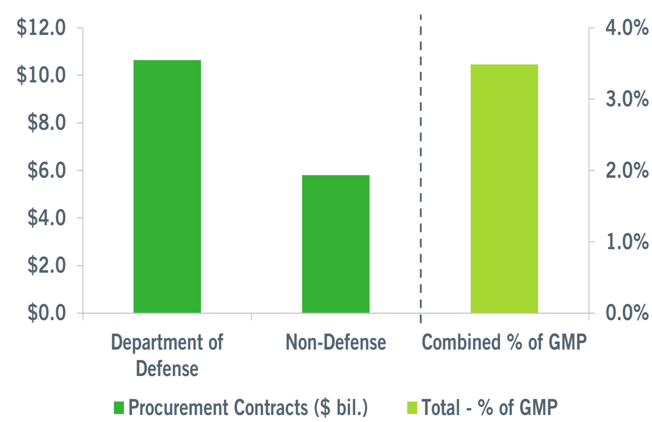
21% Federal Spending as % of GMP

Rank #10 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Louisville, KY

EXPOSURE TO FISCAL CLIFF

Overview

Thus far into the economic recovery, Louisville has been one of the more surprising success stories. Anchored by a large UPS hub which draws in other related businesses, Louisville is adding jobs at faster clip than the U.S. overall. For 2012, the Louisville metro is on pace to add 17,000 net new jobs, an increase of 2.8% - nearly double the rate of job growth in the nation at large. The Louisville office sector is also making significant progress in the recovery. Since 2010, Louisville has absorbed 1MSF of office space, causing vacancy to drop 200 bps from the peak. That said, the fiscal cliff does pose a significant downside risk. Federal spending accounts for 22% of Louisville's economy, which ranks this metro 8th in terms of the highest exposure out of the 30 metros tracked in this study.

Outlook

If the U.S. goes over the fiscal cliff, and stays there, then Louisville will quickly go from modest recovery to mild recession. Under that scenario, we estimate that the Louisville economy will contract by 0.5% in 2013, resulting in 2,900 job losses. However, we estimate that there is a 70% probability that this will not happen. It is likely that lawmakers will work out a deal to avert the cliff, and thus we expect the Louisville recovery to at least keep pace with the U.S. overall. Along with growth related to UPS, auto manufacturing, housing, and healthcare will continue to be key drivers going forward.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	-0.5%	2.3%
Job Growth	-2,900	7,400
Unemployment Rate	8.2%	7.8%
Office		
Net Absorption (SF)	-41,000	269,000
Vacancy	15.3%	13.9%
Rents – Avg. Asking	$16.36	$16.34
Rents – Annual Growth	-0.9%	-1.1%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.5	#28
% > $200k Income	3.3%	#28

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

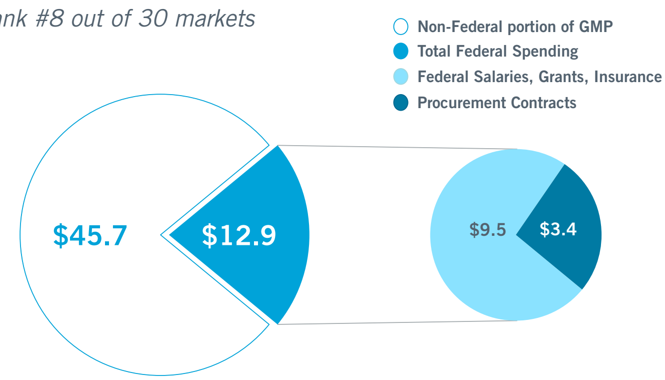
Federal Employment	9,700
% of Total Workforce	1.6%
Government Private Occupied Space (SF)	390,000
% of Total Inventory	1.8%
Demand (avg.annual gross leasing from Gov't, SF)	21,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $59 BILLION

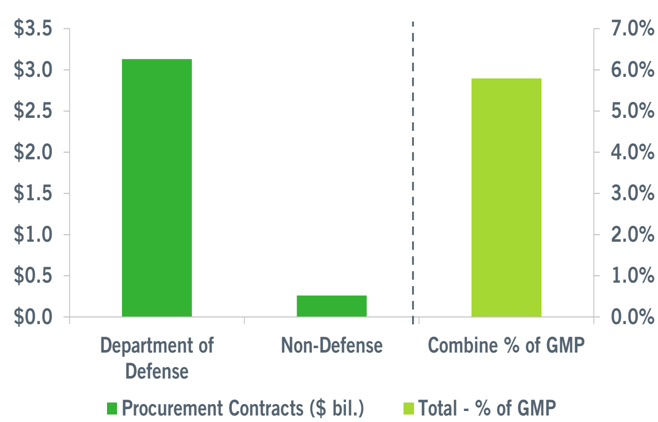
22% Federal Spending as % of GMP

Rank #8 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Milwaukee, WI

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts LOW RISK — HIGH RISK

Tax Increases LOW RISK — HIGH RISK

Overview

The Milwaukee commercial real estate market has been improving, especially the industrial sector, with consistent quarterly absorption of 250,000 square feet or more, and a vacancy rate that has dropped from over 9.1% in 3Q 2010 to 6.7% in 3Q 2012. The office sector recovery has moved at a much slower, indeed nearly motionless pace, but it is showing signs of improvement. Overall, the metro-Milwaukee market is highly diversified with very little direct reliance on federal government spending. While going off the fiscal cliff would certainly have an impact, that impact is likely to be mild relative to other markets. Still, Milwaukee has a number of manufacturing companies that supply the defense industry, and cutbacks in defense could have an impact on industrial space use. Higher taxes would also hit businesses' bottom-line profits, which would negatively impact demand for office space.

Outlook

It is most likely that the fiscal cliff scenario will be avoided and the Milwaukee commercial real estate market will continue its recovery. Should the nation go over the fiscal cliff, the most likely local outcome would be stagnation in employment and in demand for industrial and office space. This would drive down already anemic office absorption. However, in our most probable scenario, Milwaukee's economy will register at least mild growth in 2013. Overall, we expect the office sector to absorb 113,000 SF, helping vacancy to tick down slightly next year.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.1%	2.3%
Job Growth	-3,000	900
Unemployment Rate	8.0%	7.7%
Office		
Net Absorption (SF)	-31,000	113,000
Vacancy	18.9%	18.4%
Rents – Avg. Asking	$17.72	$17.77
Rents – Annual Growth	-1.7%	-1.4%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.6	#26
% > $200k Income	3.5%	#25

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

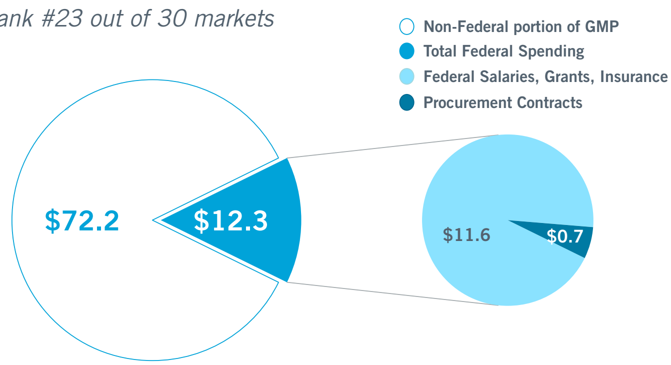
Federal Employment	10,400
% of Total Workforce	1.3%
Government Private Occupied Space (SF)	657,000
% of Total Inventory	2.3%
Demand (avg.annual gross leasing from Gov't, SF)	35,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $85 BILLION

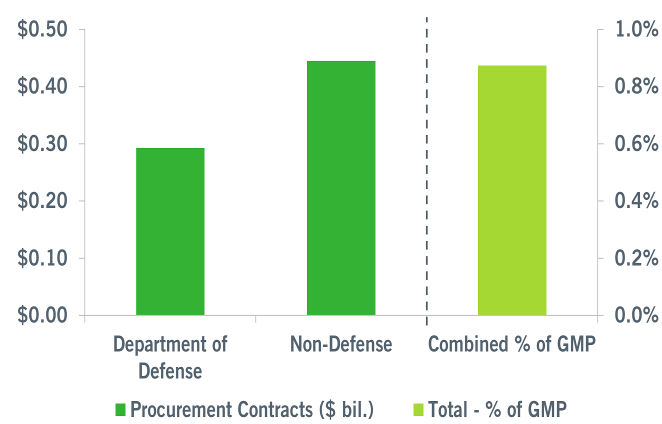
15% Federal Spending as % of GMP

Rank #23 out of 30 markets



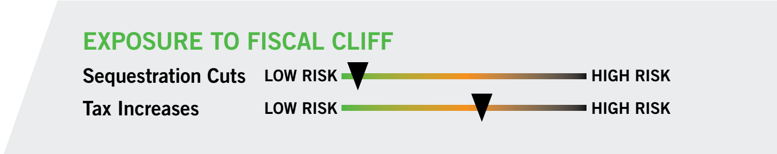
Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Minneapolis, MN



Overview

The Twin Cities region is unlikely to suffer greatly should the U.S. go over the fiscal cliff, at least not immediately. With only 12% of the gross metro product (GMP) linked to federal spending, cutbacks in both defense and non-defense budgets are unlikely to have a lasting effect on the Twin Cities. The large majority of federal spending in the Twin Cities metro is tied to the federal judicial system and Veterans Affairs administration, so any cuts to those entities would surely be short term and would have essentially no impact on long-term local economic performance. The more pressing issue for the Twin Cities metro is the potential increase in taxes which could have a negative impact on consumer spending and confidence. A decrease in consumer spending could hinder *Fortune 1000* companies' growth, and increase pressure on companies already struggling from the previous recession.

Outlook

Should the sequestration cutbacks and tax increases occur, the Twin Cities commercial real estate sector will register a small increase in vacancy. The real worry for the metro is lower consumer spending on a national scale as a result of the automatic tax increases for the entire population. GMP would decline 0.8%, and the metro would again face a decline in jobs. The Twin Cities metro has maintained an unemployment rate at least 2% lower than the national rate since 2008, so losing 7,300 jobs in 2013 would not devastate the market. If a short-term deal were agreed upon, the Twin Cities would continue on its trajectory towards recovery in absorption, rental rates, and job growth.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	-0.8%	1.5%
Job Growth	-7,300	21,100
Unemployment Rate	6.0%	5.6%
Office		
Net Absorption (SF)	-202,000	930,000
Vacancy	17.6%	16.0%
Rents – Avg. Asking	$25.00	$25.44
Rents – Annual Growth	-0.2%	1.5%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	1.3	#8
% > $200k Income	5.3%	#15

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

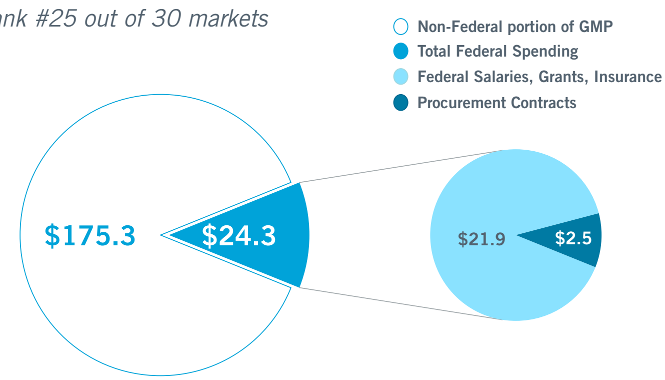
Federal Employment	20,400
% of Total Workforce	1.2%
Government Private Occupied Space (SF)	1,350,000
% of Total Inventory	1.9%
Demand (avg.annual gross leasing from Gov't, SF)	69,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $200 BILLION

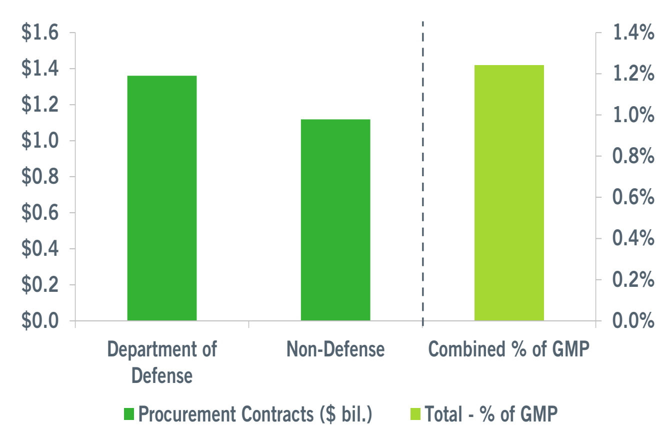
12% Federal Spending as % of GMP

Rank #25 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Nashville, TN

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts LOW RISK — HIGH RISK

Tax Increases LOW RISK — HIGH RISK

Overview

The Nashville region is not an area that most would expect to be impacted by the fiscal cliff. But federal spending accounts for 19% of the Nashville area gross metro product (GMP), which is higher than the average for the 30 metros tracked in this study. Nashville does in fact receive substantial federal funds that go primarily to government contractors and grants to support the local healthcare industry. The impact of tax hikes on the higher income brackets would be less severe in Nashville relative to other markets. Only 4% of Nashville's metro population earns more than $200,000 per year. Moreover, the federal footprint is not overly alarming in Nashville. Only 2.2% of private sector office space is leased by the federal government. From that perspective, Nashville's office market falls into the low-risk category should lawmakers fail to avoid the fiscal cliff.

Outlook

If the fiscal cliff occurs, we project that Nashville would see almost 136,000 SF of office space returned to the market in 2013, causing vacancy rates to rise 30 bps from current levels. The drop in demand would also take its toll on rent growth, which would fall by 1.1%. However, the most probable scenario is that a short-term deal will be worked out, with a more comprehensive deal following this spring. Under this scenario, Nashville's economy is expected to grow by 3.1% next year, which would be enough growth to generate 11,300 net new jobs. Thus, the most probable scenario remains a healthy economic backdrop for Nashville's office sector.

FISCAL POLICY IMPACT SCENARIOS

SCENARIOS	2013 Forecast: Fiscal Cliff *(30% probability)*	2013 Forecast: Most Probable *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.8%	3.1%
Job Growth	-3,200	11,300
Unemployment Rate	7.1%	6.7%
Office		
Net Absorption (SF)	-136,000	620,000
Vacancy	12.2%	10.1%
Rents – Avg. Asking	$19.40	$19.70
Rents – Annual Growth	-1.2%	0.2%

Methodology explained on page 38

**Office metrics reflect direct space only*

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.6	#27
% > $200k Income	4.0%	#20

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

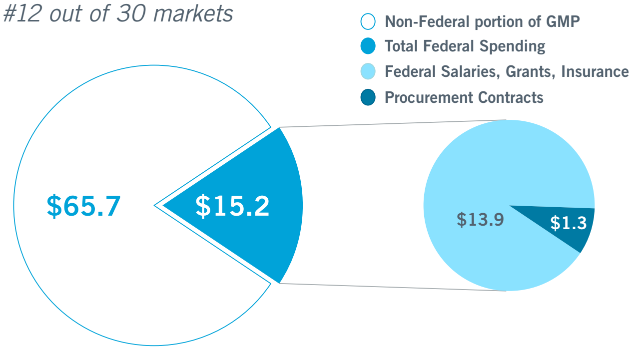
Federal Employment	12,600
% of Total Workforce	1.7%
Government Private Occupied Space (SF)	734,000
% of Total Inventory	2.2%
Demand (avg.annual gross leasing from Gov't, SF)	39,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $81 BILLION

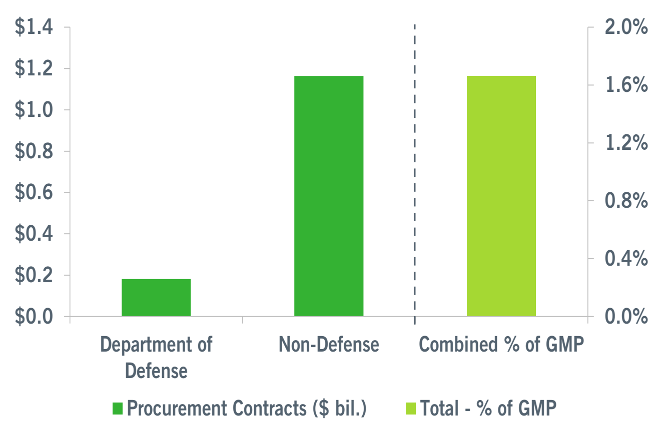
19% Federal Spending as % of GMP

Rank #12 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

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New Jersey - Central

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts	LOW RISK	HIGH RISK
Tax Increases	LOW RISK	HIGH RISK

Overview

Central NJ's (CNJ) recovery is already showing signs of stalling, and the uncertainty regarding the fiscal cliff is a clear contributing factor behind the slowdown. CNJ's office sector went from absorbing 241,000 SF in the first half of 2012, to posting negative 724,000 SF in the third quarter. Federal spending accounts for 17% of CNJ's economy, giving it a fair amount of exposure to the sequestration cuts. A more significant impact will likely result from the potential tax increases on the higher income brackets. Nearly 9% of CNJ's households earn more than $200,000 per year, which makes CNJ the 6th most exposed market to the tax hikes. The tax increases, should be allowed to occur, will undoubtedly constrict consumer and corporate spending, which will hinder office space demand.

Outlook

Based on our scenario analysis, should the cliff be allowed to occur, CNJ would experience a mild recession in the first half of 2013. This would result in the metro areas cutting 5,500 jobs, causing vacancy to rise by 90 bps from 2012 levels. However, the most probable scenario is that lawmakers will reach an agreement on the deficit reduction plan, and the sequestration cuts and tax hikes will be scaled back significantly. Under this scenario, CNJ's recovery should gain a fair amount of traction. On the upside, technology, housing, and healthcare are nearing the point where they could drive modest growth in 2013. Moody's is forecasting that there will be 6,500 jobs created in the Edison metro next year. If this script holds true, we expect CNJ's office sector to absorb 273,000 SF, resulting in a slight drop in vacancy levels.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.6%	3.1%
Job Growth	-5,500	6,500
Unemployment Rate	9.1%	8.6%
Office		
Net Absorption (SF)	-590,000	273,000
Vacancy	17.7%	16.9%
Rents – Avg. Asking	$23.45	$23.53
Rents – Annual Growth	-0.1%	0.2%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank[2]
Total Households (mil.)	0.8	#15
% > $200k Income	8.9%	#6

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

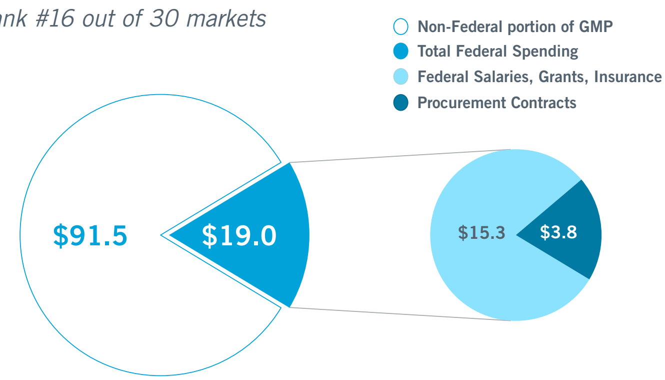
Federal Employment	11,500
% of Total Workforce	1.2%
Government Private Occupied Space (SF)	192,000
% of Total Inventory	0.2%
Demand (avg.annual gross leasing from Gov't, SF)	10,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $111 BILLION

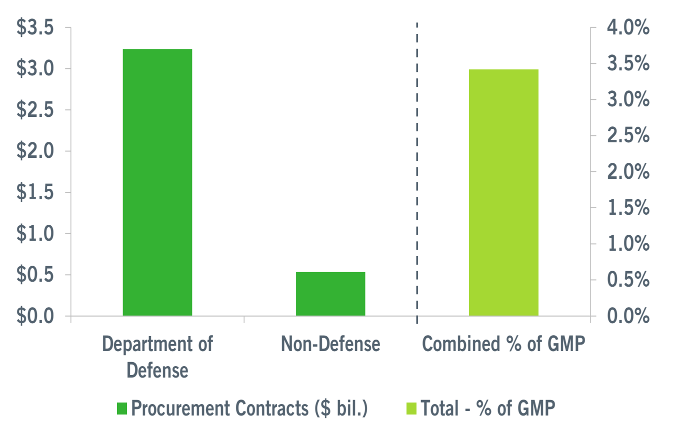
17% Federal Spending as % of GMP

Rank #16 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

New Jersey - Northern

EXPOSURE TO FISCAL CLIFF

Overview

Uncertainty regarding federal spending, tax policies, and the fiscal cliff has contributed to lackluster market conditions in the Northern New Jersey (NNJ) market. That said, NNJ's economy has shown flashes of job growth in 2012, indicating the recovery is slowly beginning to take hold. The fiscal cliff could derail NNJ's recovery before it even gets off the ground. Federal spending accounts for 15% of NNJ's gross metro product. Although that ranks in the middle of the pack in our study, a sharp drop in federal spending would be enough to stamp out the slow growth that is only now beginning to emerge. A more significant impact may result from potential tax increases on the higher income brackets. That will affect 10.4% of the NNJ's population, which is the 4th highest share of such income earners among 30 metros.

Outlook

Based on our scenario analysis, should the fiscal cliff be allowed to occur, the NNJ market will shed 583,000 SF of office space in 2013. The drop in demand would cause vacancy to rise 40 bps from current levels and rents would fall by nearly 1%. However, the more probable scenario is that policymakers will scale back the sequestration cuts and the tax increases significantly, and the fiscal cliff will be averted. If lawmakers can work it out, the NNJ economy would expand by 2.9%, which would be enough growth to generate 10,100 net new jobs in 2013. Under this backdrop, NNJ's office sector would record its first year of positive absorption since 2007, and vacancy would slowly begin to erode.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.6%	2.9%
Job Growth	-5,100	10,100
Unemployment Rate	9.8%	9.3%
Office		
Net Absorption (SF)	-583,000	104,000
Vacancy	15.8%	15.3%
Rents – Avg. Asking	$24.54	$24.59
Rents – Annual Growth	-0.9%	-0.7%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.8	#19
% > $200k Income	10.4%	#4

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

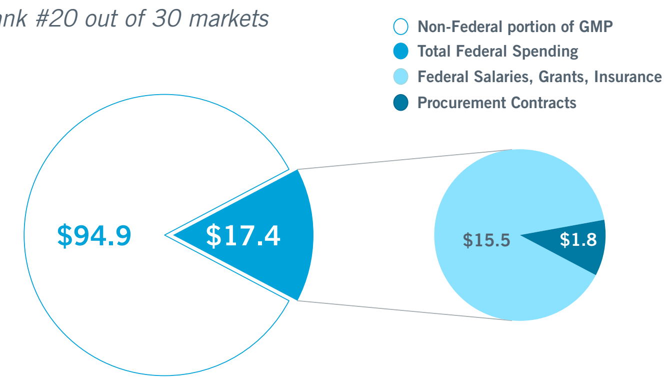
Federal Employment	16,900
% of Total Workforce	1.7%
Government Private Occupied Space (SF)	1,600,000
% of Total Inventory	1.1%
Demand (avg.annual gross leasing from Gov't, SF)	84,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $112 BILLION

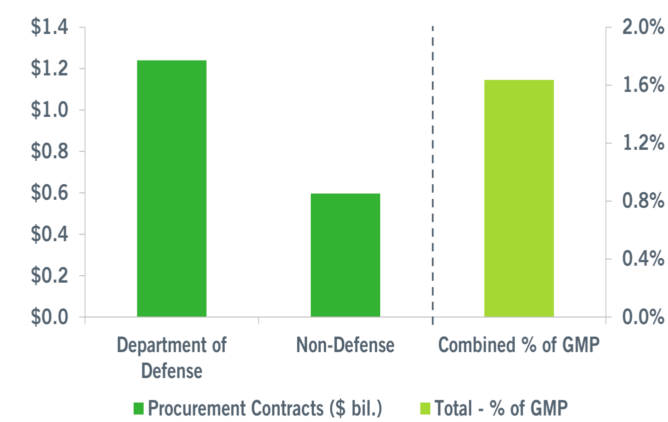
15% Federal Spending as % of GMP

Rank #20 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

New York, NY

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts LOW RISK — HIGH RISK

Tax Increases LOW RISK — HIGH RISK

Overview

Due to its broad-based economy, the New York City region will feel some impact from the sequestration cuts, but it won't be nearly as severe as other markets. Manhattan does not have a sharp correlation between direct federal funding and federal government jobs or contractors. The sheer size of NY's office market, the largest in the country (approximately 2 million SF of federal government leased space vs. a total office market size north of half a billion SF), also provides a certain amount of protection against the effect of sequestration cuts. The more significant impact will come from the tax increases on top earners as New York City does boast some of the highest incomes in the U.S. In fact, Manhattan has the highest per capita *county* income in the U.S., and Bridgeport/Stamford has the highest *metro* per capita income in the country.

Outlook

New York will likely be spared any serious impact from sequestration, but higher taxes will take their toll on consumer spending, which will hit the local economy disproportionately hard. The region is poised to receive significant emergency federal funds to help rebuild after super storm Sandy. This would help to offset some of the expected drag on GMP, should the cliff scenario be allowed to occur. Moreover, leisure and hospitality is NYC's fastest-growing industry, and a sharp drop in domestic tourism resulting from any national recession could erode tax revenue and business profits. However, in the most probable scenario, where the cliff is averted, the upside in NYC is enormous. Given how the local economy has been tracking, we estimate that the NY metro will create over 91,000 jobs in 2013, resulting in 3.4 MSF of net demand for office space.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.5%	2.7%
Job Growth	-29,100	91,200
Unemployment Rate	8.6%	8.1%
Office		
Net Absorption (SF)	-841,000	3,413,000
Vacancy	11.6%	10.7%
Rents – Avg. Asking	$56.86	$60.28
Rents – Annual Growth	-0.5%	5.5%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	4.2	#1
% > $200k Income	7.8%	#8

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

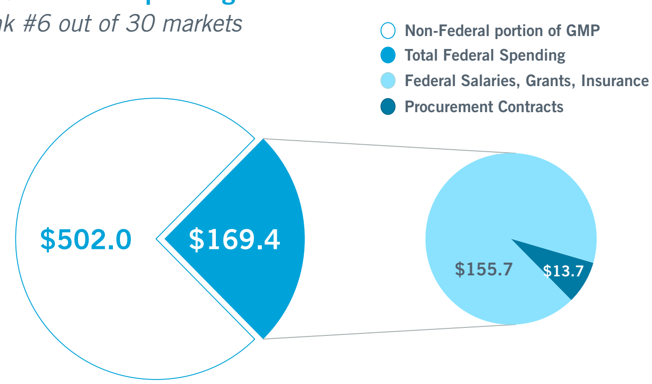
Federal Employment	111,700
% of Total Workforce	1.3%
Government Private Occupied Space (SF)	1,798,000
% of Total Inventory	0.4%
Demand (avg.annual gross leasing from Gov't, SF)	95,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $671 BILLION

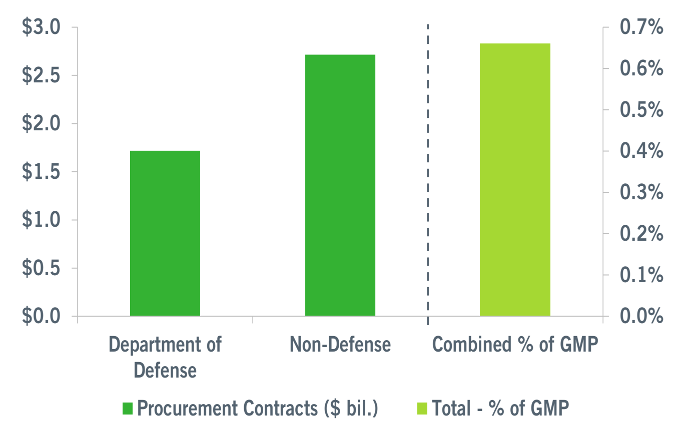
25% Federal Spending as % of GMP

Rank #6 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

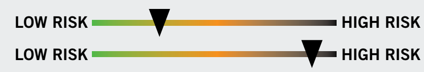
IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Oakland-East Bay, CA

EXPOSURE TO FISCAL CLIFF



Overview

The Oakland/East Bay economy has only recently begun to show signs of improvement. Unlike the neighboring San Francisco/San Jose tech-driven economies, the Oakland/East Bay economy is driven by healthcare, education and the public sector. Job growth has only just returned to this market—following years of flat-to-negative growth. But 2012 has looked better. The Oakland metro is on pace to add 20,000 net new jobs this year. Nevertheless, the region's traditionally dominant warehouse and manufacturing product has struggled to produce any positive absorption, while the East Bay's office markets have only recently begun to post modest growth after three consecutive years of substantial occupancy losses.

Outlook

The Oakland/East Bay economy is the most exposed of all those in the Bay Area to the sequestration cuts. Federal spending accounts for 17% of the local economic output. Tax hikes on the top income brackets would also hurt. Nearly one in ten local households earn more than $200,000 a year, and thus will be exposed to higher taxes should the Bush tax-cuts be allowed to expire for that income demographic. The good news is that this market is now reaping benefits from an overall improvement in the national economy as well as the Bay Area's seemingly bulletproof tech industry. More affordable housing and living costs in East Bay is spurring in-migration to the area and this trend is expected to accelerate in 2013. Still, the local economy will likely fall into recession within the first half of 2013 if no action is taken by policymakers. Commercial real estate activity has already slowed due to uncertainty and even with a quick resolution, we will see slow to flat growth in the first quarter.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.3%	2.8%
Job Growth	-6,300	9,700
Unemployment Rate	8.7%	8.1%
Office		
Net Absorption (SF)	-75,000	835,000
Vacancy	17.3%	16.4%
Rents – Avg. Asking	$20.44	$20.66
Rents – Annual Growth	-0.1%	1.0%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.9	#14
% > $200k Income	9.5%	#5

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

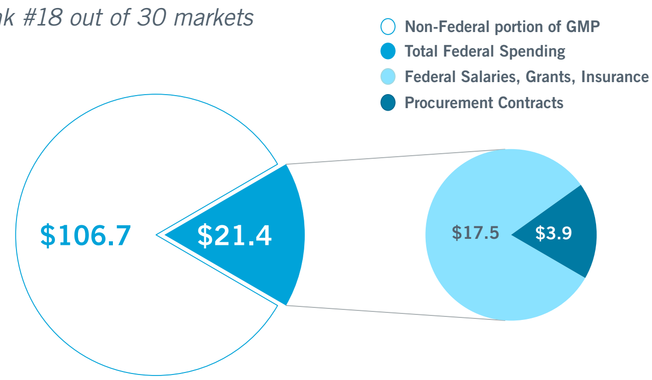
Federal Employment	14,300
% of Total Workforce	1.5%
Government Private Occupied Space (SF)	520,000
% of Total Inventory	0.5%
Demand (avg.annual gross leasing from Gov't, SF)	27,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $128 BILLION

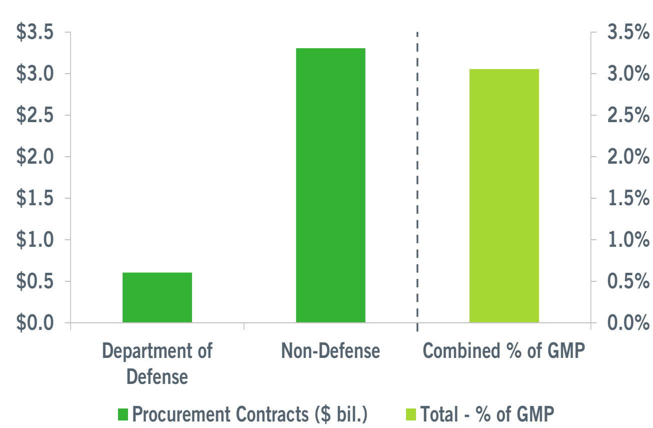
17% Federal Spending as % of GMP

Rank #18 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Phoenix, AZ

EXPOSURE TO FISCAL CLIFF

Overview

Historically, metropolitan Phoenix has experienced a "Boom or Bust" scenario due to its close connection with real estate growth and hospitality-related industries. This very connection should result in this metro lagging behind most other major metropolitan areas when looking at the impact of federal spending. In fact, 18% of the Phoenix market's gross metro product is exposed to the federal sequestration cuts. Considering that Phoenix is ranked the 13th most exposed market to such cuts, a resulting relapse into recession during 2013 would occur, assuming the fiscal cliff is not averted. With a 30% probability of a retrenchment, Phoenix would see approximately 8,300 job losses, resulting in a rise in overall vacancy rates. Given the relatively low cost of living in Phoenix, the tax hikes on the upper income brackets are less threatening.

Outlook

The most probable scenario is that the fiscal cliff is avoided and the gradual recovery will continue. As of September 2012, Phoenix has added 44,000 jobs during the year. This is a reversal of 2010's loss of 47,000 jobs and double what the metro economy added in 2011. Under the "no cliff" scenario, the Phoenix metro is expected to create another 42,000 net new jobs in 2013, which would result in 1.7 MSF of office space absorption. Vacancy, which still remains one the highest in the country at 27.5%, would erode by 2.5% next year. New speculative office construction has been virtually non-existent for the past three years, so existing inventory should experience occupancy gain especially in the surrounding suburban markets of Metropolitan Phoenix. The Phoenix metro is well on its way to an accelerating recovery, and will do so exponentially if policymakers come to an agreement

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	1.4%	3.9%
Job Growth	-8,300	42,200
Unemployment Rate	7.5%	7.1%
Office		
Net Absorption (SF)	-348,000	1,772,000
Vacancy	27.3%	24.9%
Rents – Avg. Asking	$20.24	$20.48
Rents – Annual Growth	-2.5%	-1.3%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	1.5	#7
% > $200k Income	3.5%	#26

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

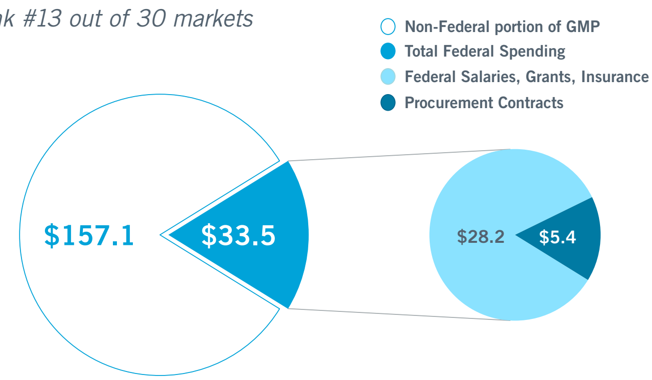
Federal Employment	22,000
% of Total Workforce	1.2%
Government Private Occupied Space (SF)	1,676,000
% of Total Inventory	2.5%
Demand (avg.annual gross leasing from Gov't, SF)	88,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $191 BILLION

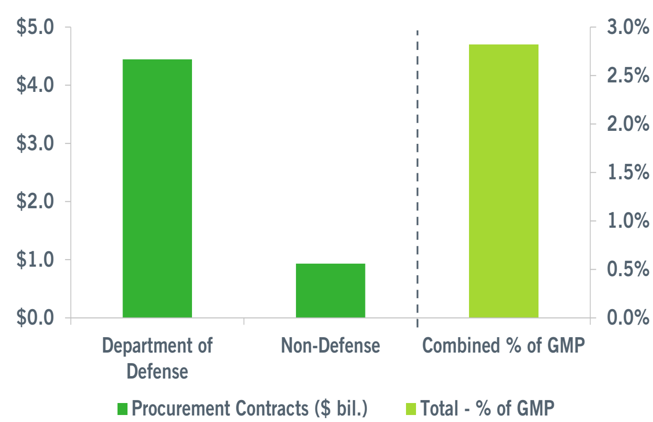
18% Federal Spending as % of GMP

Rank #13 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

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Raleigh, NC

EXPOSURE TO FISCAL CLIFF

Overview

With a sizable economic emphasis on R&D pursuits, the Raleigh market is expected to be materially affected by the sequestration cuts not only on direct defense spending, but also on discretionary spending that is tied to education and environmental protection. Though a mere 1.1% of the metro's workforce is employed directly by the federal government, a sizable chunk of private-sector workers are at least partially funded by defense and other government-backed contracts.

Outlook

At the heart of the Raleigh area economy is Research Triangle Park (RTP), a 7,000-acre public-private partnership that is home to companies engaged in research-intensive ventures. Much of the region's economic success is due to the 170 companies in the park – and the resulting infrastructure and firms that have flourished alongside RTP occupants. Raleigh boasts the highest average wages in North Carolina, driven mostly by strong income growth in the RTP. Thus, 4.9% of high income wage-earners in Raleigh are likely be subject to higher tax rates next year.

Additionally, with 11 higher education venues in the greater Raleigh-Durham area that provide basic research facilities for private industry to exploit, the area is vulnerable to education cuts that would come on top of years of waning state-level education funding. The two most prominent universities, UNC-Chapel Hill and Duke University, also have affiliated hospital systems that would be impacted by lower Medicare/Medicaid support. The region also has ties to the Fayetteville area (home to Fort Bragg) a mere 70 miles away, and there will likely be some ripple effects in Raleigh from curtailed base funding.

FISCAL POLICY IMPACT SCENARIOS

SCENARIOS	2013 Forecast Fiscal Cliff *(30% probability)*	Most Probable *(70% probability)*
Economic		
Gross Metro Product (GMP)	1.8%	4.0%
Job Growth	-2,300	9,800
Unemployment Rate	7.3%	6.9%
Office		
Net Absorption (SF)	-95,000	867,000
Vacancy	17.9%	16.3%
Rents – Avg. Asking	$20.17	$20.73
Rents – Annual Growth	-0.4%	2.4%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.4	#29
% > $200k Income	4.9%	#16

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

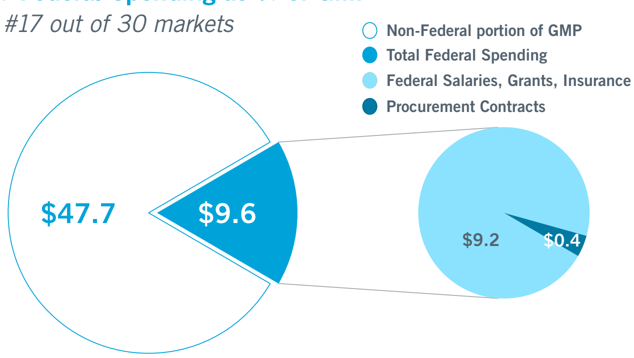
Federal Employment	5,500
% of Total Workforce	1.1%
Government Private Occupied Space (SF)	710,000
% of Total Inventory	1.5%
Demand (avg.annual gross leasing from Gov't, SF)	37,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $57 BILLION

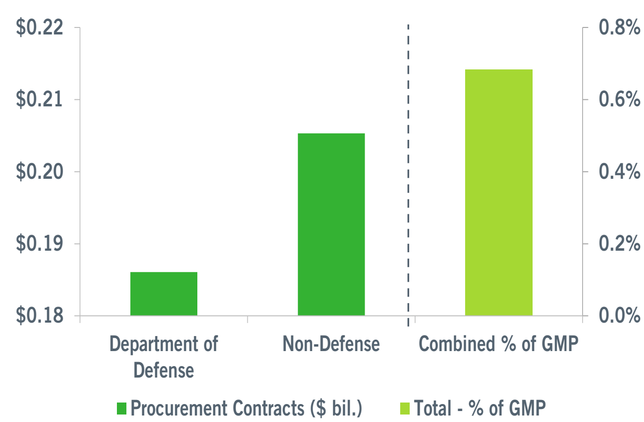
17% Federal Spending as % of GMP

Rank #17 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

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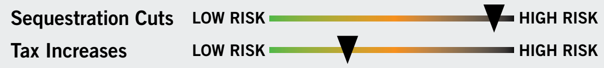
Sacramento, CA

EXPOSURE TO FISCAL CLIFF



Overview

Sacramento's economy faces severe potential challenges from the fiscal cliff. Job growth in the metro remains anemic, having only recently turned positive after languishing for a number of years. The metro economy generated only about 15,000 net new jobs over the past year for an employment growth rate of just 1.9%. Meanwhile, the region's commercial real estate market has continued to struggle with weak demand and high levels of vacancy. The market has not been in recovery so much as stabilization mode over the past 18 months and remains extremely fragile. Federal spending accounts for a very significant 35% of Sacramento's total economic output, placing the market second behind the Washington, DC metro in terms of exposure to the potential impact of sequestration cuts.

Outlook

The Sacramento economy will surely experience a recession in 2013 if a deal is not struck to avoid the fiscal cliff. The outcome will be completely dependent upon which, if any, federal spending cuts may be averted in the case of a compromise. Meanwhile, the local economy will get little relief from the State of California, which continues its own austerity measures. Only 4.2% of the Sacramento households earn more than $200,000 annually, so only a small share would feel the impact of the current proposals on tax-hikes for the top demographic. But while that impact would be minimal locally, any deal which does not significantly reduce sequestration cuts will almost certainly be felt in Sacramento. We anticipate that there is at least a 50% chance of negative growth in this market in 2013, even if a deal is struck. If the fiscal cliff is not addressed at all, a sharp downturn is inevitable.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	-0.7%	2.1%
Job Growth	-5,000	10,700
Unemployment Rate	9.5%	9.0%
Office		
Net Absorption (SF)	-209,000	740,000
Vacancy	17.0%	16.2%
Rents – Avg. Asking	$19.65	$19.72
Rents – Annual Growth	-1.6%	-1.2%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.8	#18
% > $200k Income	4.2%	#19

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

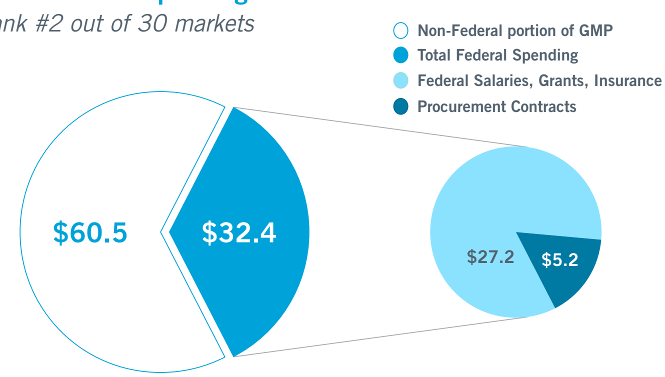
Federal Employment	13,600
% of Total Workforce	1.7%
Government Private Occupied Space (SF)	871,000
% of Total Inventory	1.0%
Demand (avg.annual gross leasing from Gov't, SF)	46,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $93 BILLION

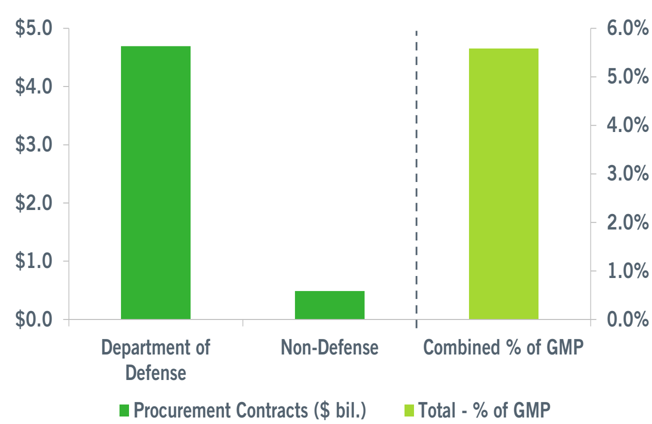
35% Federal Spending as % of GMP

Rank #2 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Saint Louis, MO

EXPOSURE TO FISCAL CLIFF

Overview

The St. Louis market is particularly exposed to the defense spending cuts which make up half of the total sequestration cuts that will take place should the fiscal cliff occur. Boeing and Scott Air Force Base are the big players in this market, but St. Louis is home to an additional 500 companies that also depend on defense contracts. In total, these defense dollars account for roughly 8% of the local economy – highest in this study by a mile. Despite the St. Louis metro's exposure to the spending cuts, given its low cost of living, it is well insulated from tax increases on the top income brackets. Just 3.7% of the metro's population earnsmore than $200,000 annually, putting St. Louis in a better position than 22 of the 30 markets included in this report.

Outlook

The more likely outcome is that a deal will be reached and the fiscal cliff will be averted. The current negotiations are focused on tax increases on the wealthy and Medicare spending cuts. As mentioned above, St. Louis is well insulated from these tax increases given its low percent of high-income workers and Medicare cuts will not impact the region as significantly as defense spending cuts would have. For this reason, nearly 400,000 square feet of positive absorption is expected if a deal is reached which would bring the vacancy rate down by 40 basis points to 16.0%.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	-1.8%	1.7%
Job Growth	-7,700	5,100
Unemployment Rate	8.1%	7.6%
Office		
Net Absorption (SF)	-322,000	399,000
Vacancy	17.0%	16.0%
Rents – Avg. Asking	$18.62	$19.00
Rents – Annual Growth	-1.1%	0.9%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	1.1	#10
% > $200k Income	3.7%	#23

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

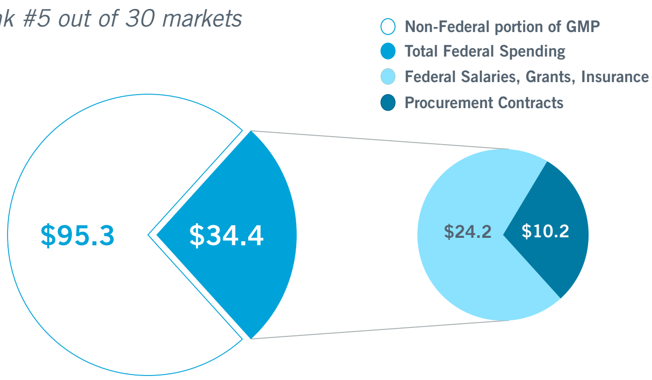
Federal Employment	26,300
% of Total Workforce	2.0%
Government Private Occupied Space (SF)	959,000
% of Total Inventory	2.0%
Demand (avg.annual gross leasing from Gov't, SF)	50,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $130 BILLION

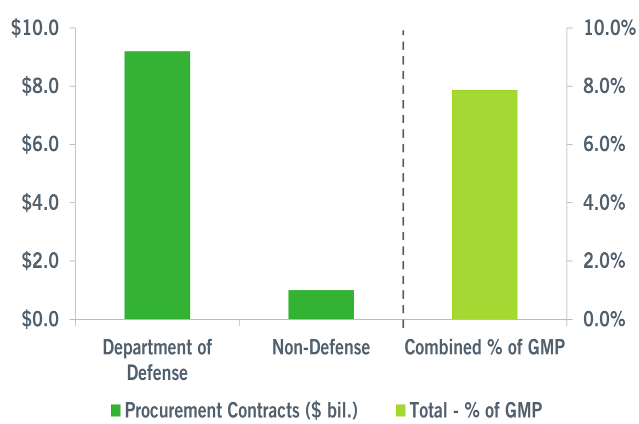
26% Federal Spending as % of GMP

Rank #5 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING

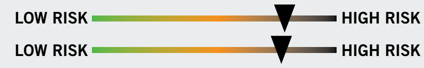


Source: Consolidated Federal Funds Report, 2010

San Diego, CA

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts
Tax Increases



Overview

Federal spending accounts for 22% or $37.3 billion of San Diego's gross metro product (GMP), making it vulnerable to the proposed sequestration cuts. If the fiscal cliff occurs, the estimated impact on San Diego's economy would range between $4.3 and $5.9 billion, or approximately 3% of GMP.[1] Funding for non-defense federal programs in San Diego would be reduced by an estimated $481 to $761 million. Defense spending accounts for $12.9 billion of San Diego's GMP. Including multiplier impacts from indirect and induced spending, the total approaches 25% or $1 in every $4 generated by the local economy. If the cutbacks are implemented, the estimated impact would range between $1.1 and $1.7 billion. Nearly 6% of San Diego households earn more than $200,000 per year, so that nearly 64,000 households would be exposed to higher taxes if the Bush tax-cuts are allowed to expire for the higher income earners.

Outlook

Should the fiscal cliff occur, San Diego would see an estimated 200,000 SF of office space returned to the market causing countywide vacancy rate to rise 30 bps to 18.3%. Rents that have stabilized over the last year would flatline. Fortunately, limited new construction, a diverse local economy and healthy tenant demand, especially for Class A space, would prevent the office market from "falling off the cliff" entirely. Assuming a short-term deal is worked out and sequestration cuts are scaled back for 2013, the San Diego economy is expected to grow 2.7% in 2013 resulting in 1.7% employment growth (+22,000 jobs), and the net demand for office space registering at 600,000 SF, causing total vacancy to decrease by 60 bps.

[1]NUSIPR http://www.nusinstitute.org/press.html

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.5%	2.7%
Job Growth	-7,300	22,000
Unemployment Rate	8.4%	7.9%
Office		
Net Absorption (SF)	-200,000	600,000
Vacancy	18.3%	17.4%
Rents – Avg. Asking	$26.76	$27.30
Rents – Annual Growth	-0.0%	2.0%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	1.1	#11
% > $200k Income	5.8%	#12

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

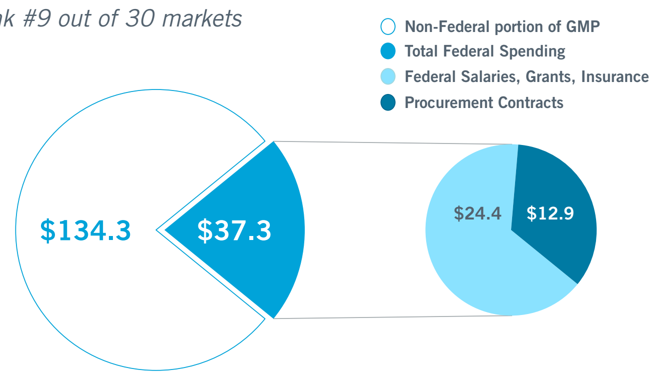
Federal Employment	46,500
% of Total Workforce	3.7%
Government Private Occupied Space (SF)	1,646,000
% of Total Inventory	2.3%
Demand (avg.annual gross leasing from Gov't, SF)	87,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $172 BILLION

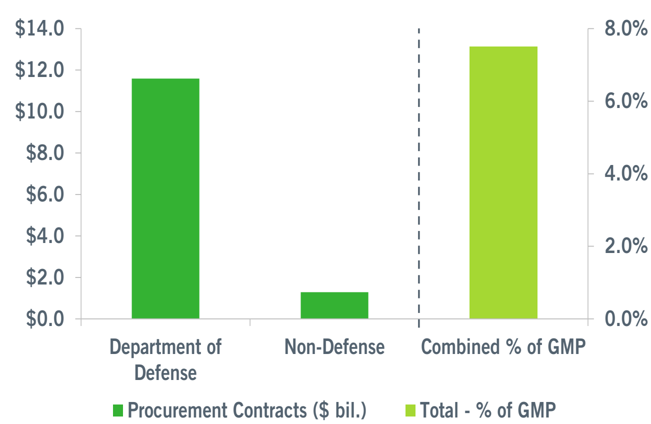
22% Federal Spending as % of GMP

Rank #9 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

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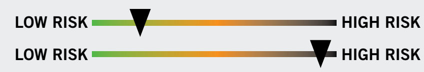
San Francisco, CA

EXPOSURE TO FISCAL CLIFF



Overview

San Francisco's economy and commercial real estate market have been in full-fledged recovery for over two years now, thanks to the region's dominant tech presence. While the metro is home to plenty of R&D companies (some of which are dependent on federal defense spending), the overwhelming majority of the tech activity driving the region's recovery is not reliant on the public sector. Despite this, the market would not emerge unscathed if policymakers fail to reach a compromise on the fiscal cliff. Federal spending accounts for 15% of total local economic output, ranking this metro 21 on our list of the top 30 markets in terms of the potential impact of any automatic sequestration cuts. Most of the political debate is focused on the issue of the President's proposal to reinstate the Bush era tax cuts for all but the top-income demographic, and that is where San Francisco may see the most significant impact. San Francisco ranks second in the U.S. in terms of annual income, with nearly 14% of its population earning $200,000 per year or more.

Outlook

It is likely that any compromise on the fiscal cliff will result in a tax increase for top earners. While this would not be enough to reverse this metro's strong growth trend, it will likely serve as a drag on future growth, particular in retail spending. If no deal is struck, economic growth will slow to near flatline levels over the first half of the year, and the national recession that would almost certainly occur could finally derail the metro's tech engine by late 2013. The good news is that this scenario is highly unlikely.

FISCAL POLICY IMPACT SCENARIOS

SCENARIOS	2013 Forecast: Fiscal Cliff *(30% probability)*	2013 Forecast: Most Probable *(70% probability)*
Economic		
Gross Metro Product (GMP)	1.7%	4.3%
Job Growth	-6,800	20,500
Unemployment Rate	8.0%	7.4%
Office		
Net Absorption (SF)	-114,000	861,000
Vacancy	10.3%	9.1%
Rents – Avg. Asking	$44.21	$50.22
Rents – Annual Growth	-0.1%	13.5%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.7	#22
% > $200k Income	13.9%	#2

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

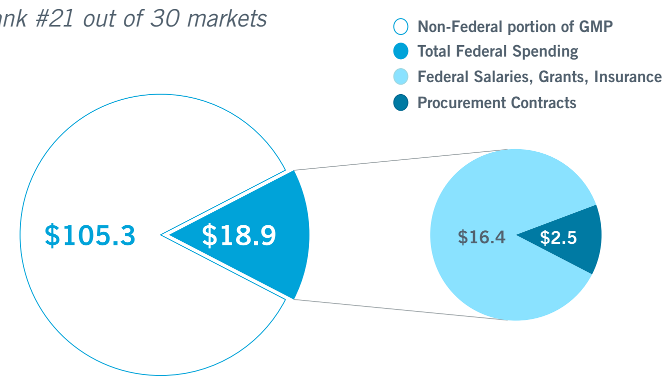
Federal Employment	18,600
% of Total Workforce	1.9%
Government Private Occupied Space (SF)	1,291,000
% of Total Inventory	1.5%
Demand (avg.annual gross leasing from Gov't, SF)	68,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $124 BILLION

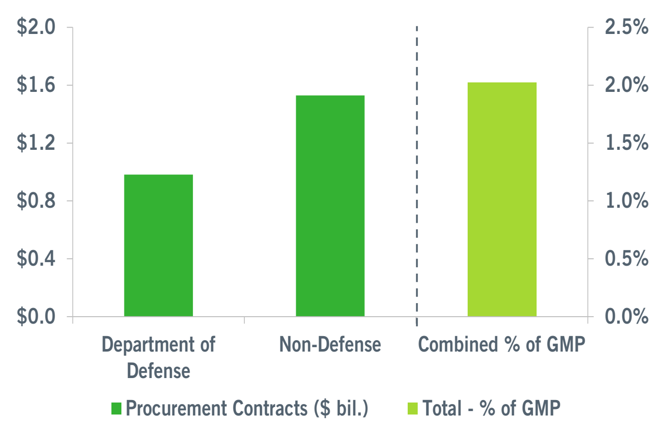
15% Federal Spending as % of GMP

Rank #21 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

San Jose-Silicon Valley, CA

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts	LOW RISK	HIGH RISK
Tax Increases	LOW RISK	HIGH RISK

Overview

It is likely that any compromise on the fiscal cliff will result in a tax increase for top earners. While this would not be enough to reverse this metro's strong growth trend, it will likely serve as a drag on future growth, particular in retail spending. If no deal is struck, economic growth will slow to near flatline levels over the first half of the year, and the national recession that would almost certainly occur could finally derail the metro's tech engine by late 2013. The good news is that this scenario is highly unlikely.

Outlook

If nothing is done regarding the fiscal cliff, economic growth in San Jose would remain positive, but slow to a crawl in the first half of 2013. This, however, is a very unlikely scenario. What is most likely is that any deal to avoid the cliff will probably result in a tax increase for top earners. Tax increases for such earners would be a drag on the local economy – particularly for retail and housing – but the impact would not be nearly as severe if the Bush-tax cuts were allowed to expire for virtually all households. Once this issue is behind us, the pace of commercial real estate activity should pick up relatively quickly. Regardless, look for San Jose's to remain one of the strongest growth economies and commercial real estate markets in the coming year.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	1.1%	4.1%
Job Growth	-8,200	17,300
Unemployment Rate	8.6%	7.8%
Office		
Net Absorption (SF)	-345,000	2,211,000
Vacancy	14.0%	12.8%
Rents – Avg. Asking	$28.57	$28.70
Rents – Annual Growth	3.9%	4.4%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	0.6	#25
% > $200k Income	14.4%	#1

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

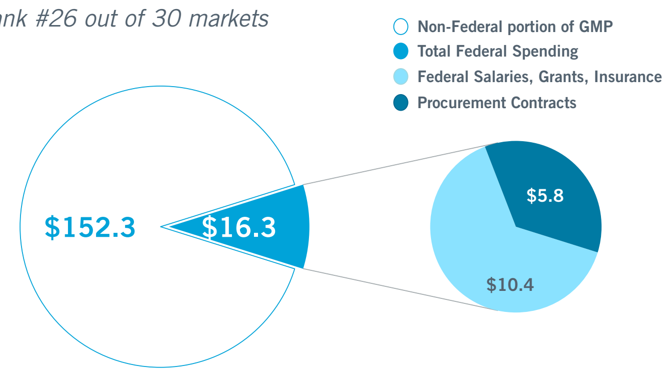
Federal Employment	9,900
% of Total Workforce	1.1%
Government Private Occupied Space (SF)	408,000
% of Total Inventory	0.2%
Demand (avg.annual gross leasing from Gov't, SF)	21,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $169 BILLION

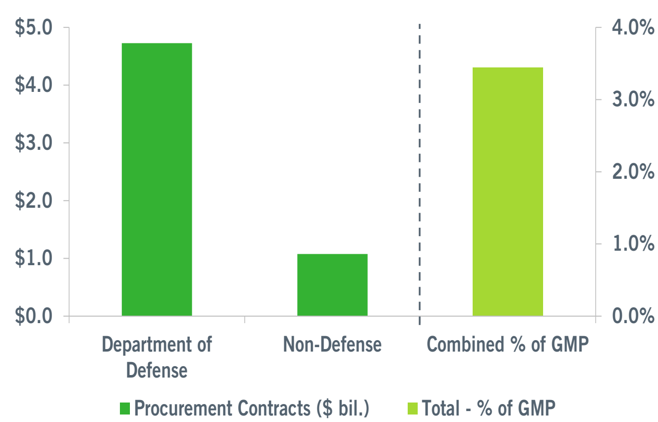
10% Federal Spending as % of GMP

Rank #26 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Tampa, FL

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts	LOW RISK — HIGH RISK	
Tax Increases	LOW RISK — HIGH RISK	

Overview

Tampa's economic recovery has been choppy, but continues to progress. In the 12 months ending in October of 2012, the metro economy was on pace to add 19,300 net new jobs, approximately 10,000 of which are office-using. Key sectors, such as professional and business services, information technology, and financial services are all expanding and have been adding jobs in 2012. However, the fiscal cliff would be a major stumbling block to a continuing recovery. Federal spending accounts for 23% of Tampa's economy, giving it significant exposure to the sequestration cuts. Moreover, tax increases would also take a bite out of consumer spending in the local economy. If the U.S. does go over the cliff, we estimate that Tampa will experience a mild recession in the first half of 2013, and 5,200 jobs will be cut.

Outlook

The most probable scenario is that policymakers will reach an agreement to avert the fiscal cliff and Tampa's fundamentals should continue to strengthen. Its office sector has been slowly absorbing space since 2011. Tampa's office vacancy rate is down 110 bps from its recessionary peak. Even more encouraging, the metro's housing market is making an impressive comeback. The months' supply of single-family homes on the market has declined from 22 months in 2008 to just 3.8 months in the latest reading in 2012 (November). Housing is poised to be a major economic driver for the local economy going forward. Upside mostly outweighs the downside risks, and thus we expect Tampa's economy to create nearly 12,000 net new jobs in 2013, which will translate into 500,000 SF of office space demand.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	0.5%	3.0%
Job Growth	-5,200	11,900
Unemployment Rate	9.4%	9.0%
Office		
Net Absorption (SF)	-26,000	500,000
Vacancy	20.7%	19.9%
Rents – Avg. Asking	$19.93	$20.22
Rents – Annual Growth	-0.4%	1.0%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	1.1	#9
% > $200k Income	2.9%	#29

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

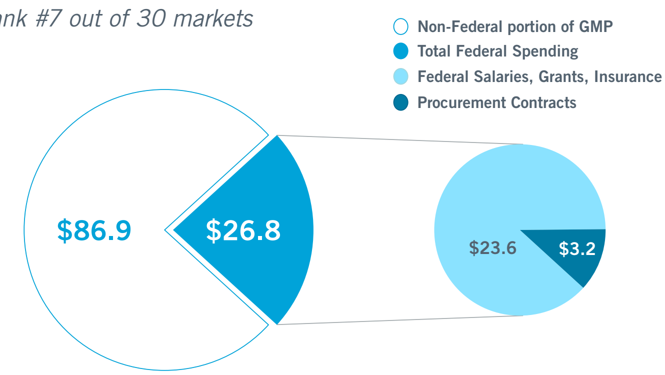
Federal Employment	23,000
% of Total Workforce	2.0%
Government Private Occupied Space (SF)	1,026,000
% of Total Inventory	1.7%
Demand (avg.annual gross leasing from Gov't, SF)	54,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $114 BILLION

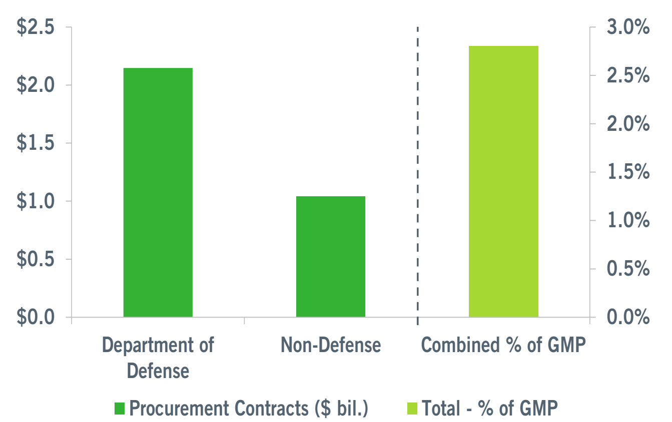
23% Federal Spending as % of GMP

Rank #7 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Washington, DC Metro

EXPOSURE TO FISCAL CLIFF

Sequestration Cuts LOW RISK — HIGH RISK

Tax Increases LOW RISK — HIGH RISK

Overview

With respect to the fiscal cliff, the Greater Washington DC region obviously has a bulls-eye stamped on its back. Federal spending accounts for 42% of the area's gross metro product, making it the most exposed market to the proposed sequestration cuts. Moreover, 11% of the DC metro's population earns more than $200,000 per year. Thus, some 200,000 households people would be exposed to higher taxes should the Bush era tax-cuts be allowed to expire for that income demographic. Unique to the Washington DC metro, federal spending has strong direct links to its office sector. In the greater Washington DC region, 23% of private sector office space is leased either by the federal government or by private sector contractors.

Outlook

Based on our scenario analysis, should the fiscal cliff be allowed to occur, the DC region would fall into a sharp recession in 2013. We estimate that the DC metro would cut 28,700 jobs and 1.2 MSF of office space would be returned to the market next year. That said, the odds of this bleak scenario playing out are quite low. The most probable scenario is that a short-term deal will be worked out and the sequestration cuts will be significantly scaled back for 2013. Under that scenario, we see 2013 as a tale of two halves. The first half will be choppy, as uncertainty surrounding policy will plague confidence across all agencies and local private sector groups. But after a longer-term budget deal is signed into law (likely in the spring), the DC region to revert back to being one of the top 5 economies and real estate markets in the country --as it has been for the past 20 years.

FISCAL POLICY IMPACT SCENARIOS

	2013 Forecast	
SCENARIOS	**Fiscal Cliff** *(30% probability)*	**Most Probable** *(70% probability)*
Economic		
Gross Metro Product (GMP)	-2.9%	2.2%
Job Growth	-28,700	18,500
Unemployment Rate	6.3%	5.2%
Office		
Net Absorption (SF)	-1,206,000	2,110,000
Vacancy	15.1%	14.2%
Rents – Avg. Asking	$35.70	$36.20
Rents – Annual Growth	-0.6%	0.6%

Methodology explained on page 38

TAX EXPOSURE & INCOME

		Rank
Total Households (mil.)	1.6	#5
% > $200k Income	12.4%	#3

Source: Census Bureau, CPS Survey

FEDERAL GOVERNMENT STATISTICS

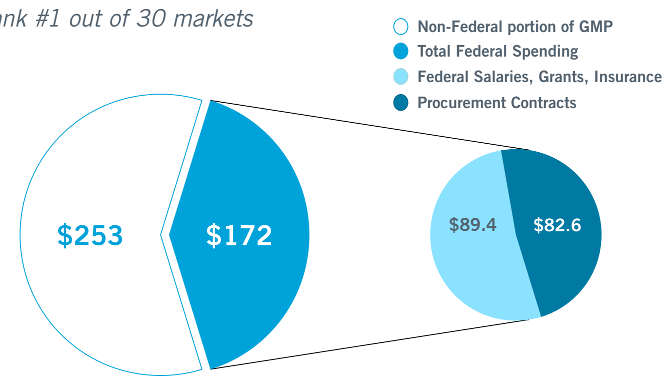
Federal Employment	327,600
% of Total Workforce	13.3%
Government Private Occupied Space (SF)	46,274,000
% of Total Inventory	13.1%
Demand (avg.annual gross leasing from Gov't, SF)	2,434,000

Source: GSA, BLS, Cassidy Turley Research

TOTAL GMP = $425 BILLION

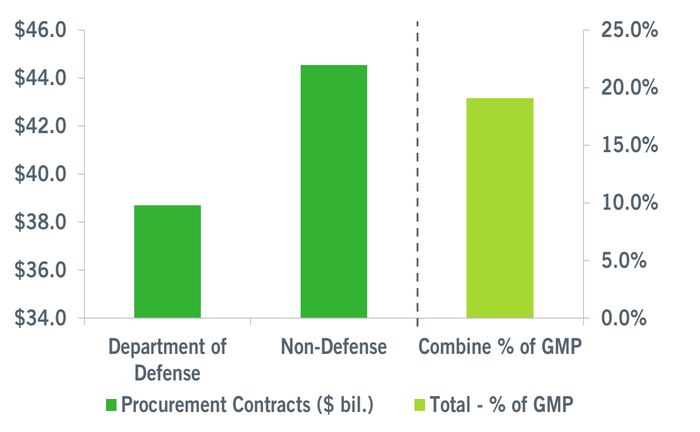
40% Federal Spending as % of GMP

Rank #1 out of 30 markets



Source: Consolidated Federal Funds Report, 2010, $ Bil.

IMPACT OF FEDERAL PROCUREMENT SPENDING



Source: Consolidated Federal Funds Report, 2010

Methodology

The probability weights (30% fiscal cliff; 70% most probable scenario) are sourced from a report produced by Capital Economics titled, "The fiscal cliff – some scenarios," released on September 12, 2012. Capital Economics is an economic consulting group based out of Toronto. The "fiscal cliff" scenario assumes that lawmakers will not reach an agreement before the end of 2012, and therefore the combination of tax increases and spending cuts will take effect in January of 2013 and will remain in effect throughout the entire year. In the "most probable" scenario, we assume that lawmakers will enact a short-term budget resolution in late December of 2012 that will extend the Bush tax cuts (for most) and resume similar spending levels out for the next three months. In doing so, the fiscal cliff will be averted. Another key assumption in the most probable scenario is that lawmakers will enact a long-term budget in 2013 that will put the U.S. on a path to fiscal sustainability.

Forecasted Metrics (Most Probable)

The economic forecasts in the section titled "Fiscal Policy Impact Scenarios" for each metro area come from Moody's Analytics Metro Précis Reports. The only exceptions are the unemployment rates, which were derived from Cassidy Turley's model. The forecasted unemployment rates for 2013 represent the estimated year-end unemployment rate (December 2013).

The office sector forecasts – net absorption, vacancy, rents – are derived from Cassidy Turley's model. We take the economic assumptions provided by Moody's and model the relationship between the local economies and the office sector to arrive at our forecasted values.

Forecasted Metrics (Fiscal Cliff)

The economic forecasts under the "fiscal cliff" scenario were modeled and produced by Cassidy Turley. We modeled our metro forecasts based on the assumptions made by the Congressional Budget Office (CBO) in their economic outlook report, 2012 to 2022. In CBO analysis, they determine the net impact the spending cuts and tax increases will have on the U.S. economy, assuming no change to the current law. We applied the net impact of the CBO's analysis to the individual metros, weighting the impact based on the 2010 distribution of federal spending per metro. This gave us an estimate of the net decline in Gross Metro Product (GMP) per metro as it pertains to the sequestration cuts. We studied the relationship between the reduced GMP and employment at each metro level, and then used regression analysis to estimate job losses under the fiscal cliff scenario.

The office sector forecasts – net absorption, vacancy, rents – are derived from Cassidy Turley's model. We take the economic assumptions under our "fiscal cliff" scenario and model the relationship between the local economies and the office sector to arrive at our forecasted values.

Definitions

Asking Rents - Gross average asking rents

Gross Metro Product (GMP) - A measure of each metro area's gross product that is based on national prices for the goods and services produced in all industries within the metropolitan area, representing a measure of metro's economic activity.

Net Absorption - The net change in occupied space between two points in time (Total occupied space in the present quarter minus total occupied space from the previous quarter, quoted on a net, not gross, basis).

Rank - shows the exposure ranking out of the 30 markets covered in the report. #1 highest exposure, #30 least amount of exposure.

Vacancy Rate - The amount of unoccupied space (new, relet, and sublet) expressed as a percentage of total inventory.

All local markets in this report refer to Metropolitan Statistical Areas (MSAs)

Endnotes

[i] Center on Budget and Priority Analysis, "How the Across-the-Board Cuts in the Budget Control Act Will Work"

[ii] CBO, "An Update to the Budget and Economic Outlook", FY 2012 to 2022

[iii] Tax Policy Center, Bloomberg Businessweek, WSJ

[iv] Moody's Analytics, "Navigating the U.S. Fiscal Cliff: Four Options"

[v] September 2012 estimate generated from Cassidy Turley's Econometric model

[vi] The Economist, "Getting down to brass tacks", November 2012

[vii] The Economist, "Getting down to brass tacks", November 2012

[viii] The Economist, "Getting down to brass tacks", November 2012

About Cassidy Turley

At Cassidy Turley, we are market leaders, industry leaders and community leaders. Nationwide, clients recognize us for the creative sophistication of our real estate advice as well as for the discipline and accuracy of our service delivery. We are a trusted partner and advocate, supporting our clients' overall business performance. In markets across the country, we are respected as a leading provider of commercial real estate services as well as for our community engagement. Our thorough understanding of local business practices and market dynamics, combined with our customer focus and service commitment, give our clients a distinct edge in commercial real estate across the globe.

Local Market Leaders, Nationwide

- Our professionals have deep ties to our communities and our industry, and a thorough understanding of local business leaders and practices, giving Cassidy Turley and our clients an edge.
- Our in-depth, local market knowledge provides a comprehensive understanding of market dynamics and enables us to effectively forecast market trends – providing insight to clients and helping them make informed real estate decisions.
- Our leadership position is recognized in the communities we serve. We are often rated in local business journals as a "Best Place to Work," and are honored for our many local philanthropic efforts.

Industry Leadership

- Named to Leaders List of 2012 Global Outsourcing 100
- Over 80% of real estate executives familiar with our brand ranked it Very Good or Excellent – Wall Street Journal survey
- Ranked in the Top Five in Best Practices Index – Commercial Property Executive
- Platinum ranking in Greenest Companies Index – Commercial Property Executive
- Top 5 in Offi ce Sales over $25 Million Nationwide – Real Estate Alert World-Class Expertise
- Many of our associates have honed their skills in their respective markets for years – even decades – gaining an understanding of industry best practices and serving as thought leaders.
- Cassidy Turley has served clients' needs outside of the United States since 1985. In order to better serve our clients in Europe and Asia-Pacifi c, Cassidy Turley is proud to partner with GVA, the founder and majority shareholder of GVA Worldwide, which serves key markets in over 25 countries

Key Statistics

- More than 60 U.S. offices
- 65 international offices*
- More than 3,700 professionals
- More than 900 brokers
- 2011 transactions
  - Gross transaction volume $22 billion
  - Gross capital markets volume $10.3 billion
- 455 million sf managed portfolio
- More than 28,000 client locations served

*Through GVA Partnership

www.cassidyturley.com

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