

## OFFICE SECTOR

*Tenants continue migration to higher quality space. Sustained improvements in fundamentals depend upon stronger office-using job growth.*

- Following a fourth-quarter spike in leasing activity at prime CBD office properties, new signings have slowed on seasonal factors but remain well above levels this time last year. The spike and subsequent moderation of activity are most observable in the nation's top investment markets, including New York City and San Francisco.
- Migration of tenants to higher quality spaces within their markets continues to dominate leasing activity, supporting improvements in occupancy and narrower concessions for the most desirable properties. This trend is expected to continue well into the New Year, fueling a deep divergence in rental trends.
- The improving outlook for prime location and property fundamentals has emboldened investors and lenders. Cap rates for office properties have fallen sharply as a result of increased buyer competition and greater credit availability for trophy properties.
- Contrasting with healthy improvements in overall office investment, underlying job growth trends remain weak. Employment in professional and business services has improved in recent months, but the gains have been concentrated in temporary and administrative jobs. In financial services, however, employment has declined.

## RETAIL SECTOR

*Consumers open their pocketbooks, driving retail spending higher in spite of slow income growth.*

- Retail spending in the United States increased by 0.3% in January, a positive result in the context of the New Year's unusual weather conditions.
- As of January, retail sales were 7.8% higher than a year earlier. Although household income growth has been relatively weak, consumer confidence has improved sharply as compared to early 2010, supporting a decline in the savings rates and increased spending.
- As savings rates have fallen, households have redirected a larger share of their incomes to discretionary spending. This increase in consumption activity has been supported by the recently-adopted payroll tax holiday, agreed alongside the extension of the Bush-era tax cuts. These tax cuts, while temporary, have supported after-tax incomes at a critical juncture in the recovery.
- The largest increases in retail sales have accrued to automobile sales and, as gasoline prices have risen, to gas stations, as well. Internet-based retailers have also registered strong gains in sales volumes.
- Amongst traditional retailers, furniture store sales are relatively unchanged from a year ago. Clothing stores and aspirational retailers have registered more observable improvements.

## INTERNATIONAL MARKETS

*Europe's sovereign debt woes threaten regional economic stability, clouding the real estate outlook.*

- Instability in the Euro Zone and the initial impact of austerity measures in the United Kingdom are exerting significant drags on Europe's major economies. GDP growth in the Euro Zone is projected to slow from 1.7% in 2010 to 1.5% in 2011, reflecting relatively healthy gains in Germany but lackluster economic activity in France, Ireland, Italy, and Spain. After contracting in the fourth quarter, the British economy is projected to grow at a modest pace of 1.8% in 2011.
- In spite of sliding consumer confidence, retail spending in the UK has remained strong. Sales measured a large month-to-month drop in December 2010, largely on account of inclement weather, but were still up by 0.9% from a year earlier. January's 1.9% increase from December, the largest month-to-month improvement since late 2004, put sales 5.3% ahead of January 2010. Regrettably, the January spike reflects a flurry of activity early in the month, when consumers were rushing to make purchases ahead of a planned increase in the value-add tax. Retail sales in the UK are otherwise projected to be weak in 2011, owing to slow growth in wages and discretionary spending.
- In the Euro Zone, spending fell by 0.9%. Apart from gains in the Nordic countries, where growth and fiscal conditions are much stronger, uncertainty about the economic outlook, rising borrowing costs, and austerity measures have undercut consumers' capacity and willingness to spend. Even in Germany, recent developments in the Euro Zone have negatively impacted sentiment, exerting drags on consumer spending.

# PBSECONOMICSNAPSHOT

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COMMERCIAL

OFFICE

RETAIL

GLOBAL

## MARKET GAUGES TEAR SHEET

### Selected Office Sector Indicators

Indicator	Current	Date	Previous	Date
Professional & Business Services Employment Change	+31,000	Jan 2011	+54,000	Dec 2010
Financial Services Employment Change	-10,000	Jan 2011	No Change	Dec 2010
Unemployment Rate	9.0%	Jan 2011	9.4%	Dec 2010
<i>For Full Time Workers</i>	9.7%	Jan 2011	10.2%	Dec 2010
<i>In New York City</i>	8.9%	Dec 2010	9.1%	Nov 2010
Office Property Construction Spending	+0.2%	Dec 2010	-5.2%	Nov 2010

### Selected Retail Sector Indicators

Indicator	Current	Date	Previous	Date
Personal Income	+0.4%	Dec 2010	+0.4%	Nov 2010
Inflation (Consumer Prices)	+0.5%	Dec 2010	+0.1%	Nov 2010
Retail Spending (On All Products)	+0.3%	Jan 2010	+0.5%	Dec 2010
Retail Spending (Excluding Spending on Cars and Food)	+0.5%	Jan 2010	+0.6%	Dec 2010
Savings Rate of American Households	5.3%	Dec 2010	5.5%	Nov 2010
Retail Employment Change (Jobs Gained or Lost)	+27,500	Jan 2011	+2,800	Dec 2010
Retail Construction Spending	-0.1%	Dec 2010	+1.9%	Nov 2010

### Selected International Indicators

Indicator	Current	Date	Previous	Date
<b>Britain</b>				
Exchange: Dollars Per British Pound	1.60	Feb 2011	1.56	Jan 2011
Unemployment Rate	7.9%	Nov 2010	7.9%	Oct 2010
GDP Change	-2.0%	2010 Q4	+2.7%	2010 Q3
Inflation (Consumer Prices, From Year Ago)	+2.9%	Dec 2010	+1.9%	Nov 2010
Retail Spending	+0.9%	Dec 2010		
<b>Euro Area</b>				
Exchange: Dollars Per Euro	1.35	Feb 2011	1.30	Jan 2011
Unemployment Rate	10.0%	Dec 2010	10.1%	Nov 2010
GDP Change	+1.4%	2010 Q3	+1.9%	2010 Q2
Inflation (Consumer Prices, From Year Ago)	+1.0%	Jan 2011	+0.9%	Dec 2010
Retail Spending	-0.9%	Dec 2010		

Sources: U.K. National Statistics Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, Economist Intelligence Unit, Bloomberg