

OFFICE SECTOR

Lease signings slow from Q4'10 to Q1'11, but vacancy rate declines slightly. Tenant migration shows signs of slowing as rent gap widens.

- New lease-signings slowed from Q4'10 to Q1'11 but remained well above levels from a year earlier. With less sublet space coming to market, the vacancy rate inched down just slightly, in spite of more moderate pace of absorption.
- Migration of tenants to higher quality spaces continues to dominate leasing activity, supporting improvements in occupancy and narrower concessions for the most desirable properties. However, the widening gap between top-tier rents and rent trends at other properties is beginning to slow the pace of migration.
- Cap rates for the best-located office properties continue to decline at a faster pace than the rest of the market. Buyers are justifying prices and new debt loads with expectations that they will raise rents at a faster pace over the coming quarters.
- Underlying job growth trends remain weak in office-using employment categories. Employment in professional and business services has been improving, but the gains have been concentrated in temporary and administrative jobs. In financial services, job trends are decidedly mixed. Financial services employment increased by just 6,000 jobs in March after falling by 3,000 jobs the month before.

RETAIL SECTOR

Consumer spending continues to improve, supporting a stronger retail outlook. High Street rents and sale prices climb even as trends weaken for shopping centers.

- Retail spending increased by 0.4% in March and is 7.1% higher than a year earlier. The exceptional increase in headline spending masks the impact of higher energy and food prices. For consumer discretionary goods, such as clothing, spending has increased at less than half the pace.
- Household income growth has been relatively weak as compared to spending. Consumer confidence has improved since last year, allowing consumers to spend more freely, but continuing improvements in spending will require stronger labor markets and income growth.
- Consistent with inflationary pressures, the largest increases in retail sales have accrued to gas stations. But improvements are observable in other categories, as well. Internet-based retailers have also registered strong gains in sales volumes, with the dollar volume of sales rising 12.4% from a year earlier. In the bricks and mortar categories, pharmacies and other personal care stores have registered strong gains.
- In spite of the mixed retail outlook, rents and prices along the most coveted retail corridors have shown marked increases in recent months. Manhattan set the bar in Q1'11, with several retail spaces trading at the highest prices per square foot measures since before the recession.

INTERNATIONAL MARKETS

Europe takes its latest debt crises in stride but the impact on consumers and the region's economy is undeniable.

- Continued instability in the Euro Area and the impact of austerity measures in the United Kingdom are exerting drags on Europe's major economies. The Euro Area is projected to grow at just 1.7% in 2011, holding to the same tepid pace of growth in 2012. In Britain, the economy is expected to emerge from the Q1'11 contraction but will only grow at 1.6% in 2011 and 1.9% in 2012. At these disappointing rates of growth, unemployment in Europe will decline at a slow pace. Europe's core economies will outperform its periphery. The German economy is projected to grow by 2.7% in 2011, nearly as fast as the United States. Denmark, Norway and Sweden are also expected to outpace Europe's otherwise lackluster growth trajectory.
- Consistent with the labor market's prodding pace of recovery, wage growth in the Euro Area and Britain has also been slow. Consumers across the pond have been more restrained than their American peers. In the Euro Area, retail sales increased by just 0.1%. In Britain, sales increased by 1.5%. France and the Nordics are faring better than their southern neighbors. Retail sales have increased by 2.0% or more in the Netherlands, Norway, Sweden and Finland. In contrast, sales have declined by 4.5% in Portugal, 5.6% in Spain and 15.6% in Greece. With such large drops in consumer contributions to economic activity, many southern European economies are at risk of sliding back into recession.

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	+78,000	Mar 2011	+44,000	Feb 2011
Financial Services Employment Change	+6,000	Mar 2011	-3,000	Feb 2011
Unemployment Rate	8.8%	Mar 2011	8.9%	Feb 2011
<i>For Full Time Workers</i>	9.4%	Mar 2011	9.5%	Feb 2011
<i>In New York City</i>	8.4%	Mar 2011	9.1%	Feb 2011
Office Property Construction Spending	-1.9%	Feb 2011	-5.6%	Jan 2011

Selected Retail Sector Indicators

Indicator	Current	Date	Previous	Date
Personal Income	+0.3%	Feb 2011	+1.2%	Jan 2011
Inflation (Consumer Prices)	+2.7%	Mar 2011	+2.1%	Feb 2011
Retail Spending (On All Products)	+0.4%	Feb 2011	+1.1%	Jan 2011
Retail Spending (Excluding Spending on Cars and Food)	+0.8%	Feb 2011	+1.1%	Jan 2011
Savings Rate of American Households	5.8%	Feb 2011	6.1%	Jan 2011
Retail Employment Change (Jobs Gained or Lost)	+17,700	Mar 2011	-7,800	Feb 2011
Retail Construction Spending	-0.9%	Feb 2011	+1.0%	Jan 2011

Selected International Indicators

Indicator	Current	Date	Previous	Date
Britain				
Exchange: Dollars Per British Pound	\$1.64	April 2011	\$1.54	Year Earlier
Unemployment Rate	7.8%	Feb 2011	8.0%	Jan 2011
GDP Change	-1.9%	2010 Q4	+2.7%	2010 Q3
Inflation (Consumer Prices)	+4.0%	Feb 2011	+4.4%	Jan 2011
Retail Spending	+1.5%	Feb 2011		
Euro Area				
Exchange: Dollars Per Euro	\$1.43	April 2011	\$1.35	Year Earlier
Unemployment Rate	9.9%	Feb 2011	9.9%	Jan 2011
GDP Change	+1.2%	2010 Q4	+1.4%	2010 Q3
Inflation (Consumer Prices)	+2.7%	Feb 2011	+2.4%	Jan 2011
Retail Spending	0.1%	Feb 2011		

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