



## ***PRESS RELEASE***

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### **SIOR COMMERCIAL REAL ESTATE INDEX**

#### **PROVES AN ACCURATE INDICATOR OF MARKET CONDITIONS AS IT REFLECTS ECONOMIC CONDITIONS IN THE U.S.**

**October 2008** – the Third Quarter 2008 SIOR Commercial Real Estate Index, compiled by the SOCIETY OF INDUSTRIAL AND OFFICE REALTORS (SIOR) in association with the NATIONAL ASSOCIATION OF REALTORS (NAR), highlights the accuracy of the SIOR Index as it reflects the affect the overall economy has on Industrial and Office real estate market conditions across the United States. The national Index, which measures 10 variables pertinent to the performance of U.S. industrial and office markets, dropped for a seventh straight quarter to an overall total of 66.4 points, 10 points lower than Second Quarter’s results. This point drop placed it 33.6 points below the 100 point criteria that represents a balanced office and industrial marketplace and 53.3 points below its record high in spring 2006.

The SIOR Commercial Real Estate Index is a diffusion index (see Methodology) where a score of 100 indicates markets in balance. A score of 66.4 reflects conditions that are significantly less favorable for landlords and sellers, but excellent for tenants and purchasers.

SIOR commercial real estate professionals provided their views on Third Quarter 2008 market conditions in their respective markets in an October survey.

Not unexpected considering current economic conditions, 93 percent of SIOR members report that their local markets are feeling the impact of the decline in the national economy. Eighty-two percent of respondents report that leasing activity is down from historic levels. Market fundamental have been clearly impacted as 61 percent of respondents feel that vacancy levels are higher than normal. Concessions benefiting tenants are riding above normal indicating a “tenant’s market” according to 64 percent of respondents: 10 percent of them indicating deep discounts. Thirty-three percent of respondents indicated that there was virtually no new construction going on in their marketplace and according to 74 percent of respondents construction in general is down. Sixty-eight percent of respondents predict a 1-15 percent decline in activity for Fourth Quarter 2008—a clear indication that concerns about where the economy is heading are impacting the commercial real estate business—and will continue to do so.

#### **Office Market**

The Office Market Index was hit with another decrease. Scoring only 59.3 points it lost 8.5 points from last quarter leaving it almost 41 points from equilibrium.

#### **Industrial Market**

The Industrial Market Index, at 59 points, has lost its 8.6 point Second Quarter lead over the office market and now trails it by .3 points.

## Regional Breakdown

The short term market outlook looks bleak according to SIORs in the **Northeast** who scored 71.9 points. SIORs in the Northeast report the strongest negative impact on their local markets by the national economy. However, they do feel that their investment markets are in balance.

The **Mid-West** tallied a score of 69.2 this quarter, gladly relinquishing its dubious distinction of having the lowest Index score to the West. Investment prices are lowest in the Midwest and Midwest respondents feel more strongly than other regions that the local economy is having a negative impact on their market conditions.

Respondents from the **South**, with an Index score of 78.2, were the most optimistic, which might have something to do with the fact that they report leasing activity closer to one year ago levels, concessions closer to balance, and they continue to see a balanced investment market.

The **West**, weighing in with an Index score of 65.6 points, is seeing the lowest levels of leasing and development activity, the highest vacancy rate, the largest decline in asking rents, and moderate to deep tenant concessions.

### METHODOLOGY

The SIOR Commercial Real Estate Index is constructed as a “diffusion index,” a very common and familiar indexing technique for economic measures. Other examples of diffusion indexes include the Index of Leading Economic Indicators, the Consumer Confidence Index, and the Institute of Supply Management’s Purchasing Managers’ Index. In the SIOR Commercial Real Estate Index, a value of 100 represents a well-balanced market for industrial and office property. Values significantly lower than 100 indicate weak market conditions; values significantly higher than 100 measure strong market conditions. The theoretical limits of this Index are a low of zero, and a high of 200, though it is unlikely that such limits would be approached as long as the property markets are operating efficiently.

The Index is based on a survey questionnaire with ten topics. The topics covered are (1) recent leasing activity; (2) trends in asking rents; (3) trends in vacancy rates; (4) subleasing conditions; (5) levels of concession packages in leases; (6) development activity; (7) site acquisition activity; (8) investment pricing levels; (9) the impact of the local economy on the property market; and, (10) the effect of the national economy on the property market. Survey respondents are given five choices. For each topic, five choices are provided, corresponding to conditions that are very weak, moderately weak, well-balanced, moderately strong, or very strong.

For each question, answers are tallied and the percentage of responses for each of the five choices is calculated. If survey panelists indicate “very weak” conditions (the “a” choices in the questionnaire), the answer is assigned 0 (zero) points; “moderately weak” (“b” answers) earn 5 points; an indication of “market balance” (“c”) receives 10 points; “moderately strong” indications (“d”) score 15 points; and “very strong” (“e”) responses receive a maximum 20 points. Thus a score of 10 for a given question can be earned if responses are evenly distributed across all five choices, if all responses were “c”, or if the answers form a “bell-shaped curve” centered around the “c” choice. The total index value is derived by summing the scores for all ten questions. Index values for each of the two property types are similarly calculated.

The survey was developed by Hugh F. Kelly, CRE, clinical professor at New York University, who worked with SIOR on research projects since 1989.

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Only the industry’s top professionals qualify for the SIOR designation. Today, there are more than 3,200 SIOR members in 590 markets in 25 countries—2,800 of whom hold the SIOR designation.

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