

Economic Overviews

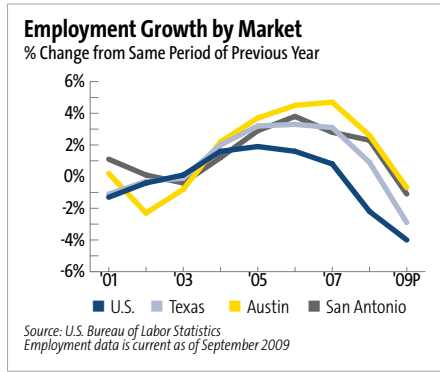
Excerpts from *Economic Overviews* by Grubb & Ellis



Austin / San Antonio

In spite of the national economic troubles, the resiliency of Austin and San Antonio has positioned both markets to be among the first in the nation to recover in 2010.

The national economic recession spilled over into the Central Texas region in 2009 as the job market weakened, unemployment increased and consumer spending plummeted. The ripple effects of the recession materialized in the form of reduced net absorption, increased vacancy and falling asking rates across all commercial property types.



Although the Central Texas region fared better than other national markets, both the Austin and San Antonio metros witnessed job losses for the first time since 2003. Austin's employment numbers were driven by layoffs by employers such as Dell, Samsung and other high-tech suppliers, while San Antonio suffered from the relocation of AT&T to Dallas.

Austin ended 2009 with its highest job loss rate since 2003, which amounted to a modest decline of 0.7 percent. The unemployment rate for Austin shot up to 7.2 percent, up 200 basis points from the previous year, largely due to a growing population and labor force. San Antonio's employment base also contracted by 1 percentage point as the unemployment rate moved up to 7.1 percent in 2009.

Austin's economy is bolstered by numerous federal, state and local government agencies, jointly employing over 150,000 workers. Within the past year, increased state government payrolls offset some of the layoffs seen in construction and high-tech manufacturing. Although large local semiconductor makers such as Samsung and Freescale have recently laid off employees, there are new opportunities in solar energy. Solarbridge and Heliovolt recently set up shop in Austin, tapping into the deep pool of microprocessor industry workers. In addition, Gemini Solar is building the largest solar power plant in the country for Austin Energy on 300 acres in eastern Travis County. When completed in 2010, the plant will generate 30 megawatts of power, enough for 5,000 homes.

San Antonio benefits from a large presence of military housed in several major installations. The U.S. Air Force recently announced the addition of hundreds of new jobs to the area, which should help mitigate recent employment cuts in other sectors. The congressionally mandated BRAC program will further benefit the San Antonio area, bringing tens of thousands of new jobs and residents to the city. Toyota also plans to relocate the production of the Tacoma truck line to the company's

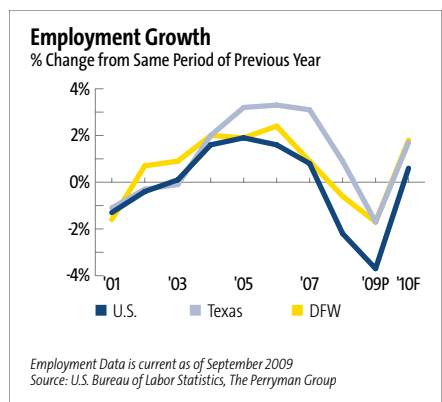
existing plant in southern San Antonio, a move that could create as many as 1,100 jobs. In addition, construction is now underway on a new Caterpillar assembly plant that will employ 1,465 workers in Seguin.

The long-term forecast for Central Texas is among the most promising in the country as the region's favorable business climate, low cost of living, highly educated workforce and relatively inexpensive real estate make it a desirable place to live and do business. According to IHS Global Insight, Austin and San Antonio will lead the way in the much anticipated recovery, bouncing back to their pre-recession job levels late in 2010.

Dallas / Ft. Worth

The strong economic fundamentals of the Dallas-Fort Worth region position the local economy for long-term sustained expansion.

Dallas / Fort Worth has been one of the metropolitan areas least affected by the economic recession. The region's varied industry base, relatively low business costs, strong population growth and central location in the U.S. helped to insulate the area from the dire scenarios experienced nationwide.



The North Texas economy is one of the more diversified in the country. Its economic base is comprised of such major industries as high-tech electronics, transportation, aerospace/defense, financial services, retail and wholesale trade.

Although the job market cooled in 2009 as a result of layoffs in the key manufacturing and professional services industries, significant job losses are not expected to extend beyond 2010. Almost every industry sector lost jobs in 2009 with the most severe losses seen in the construction, financial services and information sectors. Nearly all job gains appeared in the education and health services sector which added about 22,000 jobs, or 6.6 percent for the 12 months ending September 2009.

Local trade and manufacturing sectors should gain strength as the nation enters an expected recovery phase in late 2010. Employment growth is likely to return by mid-2010 followed by slow, sustained growth in the next couple of years. According to IHS Global Insight, healthcare and consumer staples industries are best positioned for recovery from the economic recession, which bode well for sustained growth in the education and health services sector.

Dallas-Fort Worth is the fourth-largest metropolitan area in the country, with an estimated 2008 population of 6.3 million residents. The DFW region added over 1.1 million people since 2000, an impressive 22 percent increase or nearly 2.5 percent per year. In fact, the Metroplex is one of seven U.S. metros among the Global 100 fastest growing areas since 1975. Although the rate of population growth decelerated in the last two years, population growth remains strong. The Perryman Group forecasts the population will expand just over 2 percent per year through 2011.

Approximately 50 percent of the local area's population growth is attributable to in-migration. The economic recession has negatively impacted population mobility from reduced personal incomes and unemployment losses. Despite a slowdown in the rate of in-migration in the near term, the Texas State Data Center forecasts a phenomenal 40 percent increase in the Metroplex population from 2005 to 2025. The growing population will require services from the retail, financial services, manufacturing and education and health services sectors, which point to the area's positive long-term outlook.

The Metroplex has become a regional hub for the transportation, distribution and wholesale trade industries. The region's central U.S. location is equally close to North America's five largest business centers: New York, Chicago, Los Angeles, Mexico City and Toronto. Further, more than 50 million people can be reached from Dallas-Fort Worth overnight by truck or rail, and 98 percent of the U.S. population can be reached within 48 hours. The area's central U.S. location ensures lasting growth from passenger and air cargo activity at Dallas-Fort Worth International and Alliance airports, the metro's vast trucking and rail industries and a huge distribution infrastructure.

The Dallas-Fort Worth International Airport has had an extraordinary impact on the regional economy and has contributed immensely to the relocation and expansion decisions of numerous firms since the airport opened in 1974. Today, Dallas-Fort Worth International Airport is the third-busiest airport in the world in terms of operations and seventh in terms of passengers, handling an estimated 57 million passengers annually. The international airport generates an economic impact estimated at \$16.6 billion annually across the North Texas region.

Alliance Airport further strengthens the region's position in air cargo distribution. Alliance, the world's first master-planned industrial airport, was built in 1989 in North Fort Worth. The industrial airport, which is part of the 17,000-acre multiuse Alliance Texas development, has an intermodal rail complex with connecting highway systems, along with specialized development sectors for industrial, commercial, residential and retail users. Alliance provides links to markets around the world through its air, rail and highway networks. The combination of these networks allows companies to combine transportation methods for quicker and more efficient ways to get products to customers. In aggregate, Alliance now houses more than 220 companies with over 28,000 full-time workers that have invested \$6.7 billion to build about 31.2 million square feet of industrial and commercial space. Alliance Airport produced an economic impact within the region of \$36.4 billion from 1990 to 2008.

The Dallas Logistics Hub, located 12 miles south of downtown Dallas, is the largest new logistics park in North America. The 6,000-acre master-planned logistics park is adjacent to Union Pacific's Southern Dallas Intermodal Terminal, four major highway connectors (I-20, I-45, I-35 and Loop 9/Trans-Texas Corridor) and a future air cargo facility at Lancaster Airport. Upon build-out, the park will provide more than 60 million square feet of distribution, manufacturing, office and retail

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space, as well as 32,000 direct and 33,000 indirect jobs.

According to the Dallas Regional Chamber, the Metroplex ranks 10th in global competitiveness among 21 key international metropolitan regions. The regions are ranked on the basis of talent, access, resources, business climate and quality of life. Among North Texas' strongest attributes contributing to the area's global strength is its very low costs of doing business. Further, the Metroplex consistently ranks as one of the least expensive cities to do business by a variety of surveys including the Kosmont-Rose Institute and Moody's Economy.com.

The region has a long history of attracting corporate relocations due to its positive business climate. Recently announced corporate relocations include:

- Advanced H2O announced plans for new production and distribution facilities at the Dallas Logistics Hub that will generate 125 jobs.
- TruGreen is establishing a contact center in Lewisville, creating 200 jobs.
- Planet.com selected Plano for the home of a new data center, creating 37 jobs.
- Cisco announced they will be building a data center employing 120 in Allen.
- Arch Chemicals Inc., a chemical manufacturer and supply company, selected Wilmer for the home of a new distribution center, creating 50 jobs.
- GKN Aerostructures North America announced they will be moving its corporate headquarters to Irving from St. Louis. About a dozen top executives will relocate.
- United Supermarkets will build a 200,000-square-foot distribution center in the Alliance Airport area, which will initially employ 75 workers and could grow to as many as 120 workers.

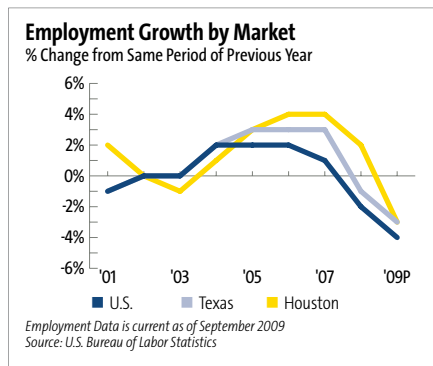
The North Texas region's historically strong employment and population growth, diversified economy and low costs of doing business led to the area becoming the 12th largest metro economy in the world, with a gross metro product of \$300 billion. IHS Global Insight expects solid employment gains to return to the Dallas-Fort Worth region by 2011; as a result the North Texas region is poised for expansion in the long term.

Houston

Houston's run of solid economic growth abruptly came to an end as the effects of the recession plagued the market.

Houston's run of solid economic growth came to an end in 2009 as the effects of the national recession proved to be too much for the regional economy. This is in sharp contrast to the first eight months of 2008 when people continued to flock to Houston, as the area was considered the leading market for job-seekers. The regional economic expansion was mainly driven by the energy sector, as oil and natural gas prices reached record highs. However, that all came to an end towards the end of 2008 as the recession struck Houston hard and energy prices dropped from \$150 per barrel to below \$50 in just four months, forcing many companies to downsize and consolidate operations. Despite the rapid deterioration that set in a year ago, Houston's employment base still grew at an annualized rate of 2 percent in 2008, but experienced a negative

3 percent growth rate in 2009. Meanwhile, Houston's unemployment rate steadily increased to 8.5 percent as of September 2009, which is the highest level since 1987 when it stood at 9 percent. However, it still remains significantly lower than the national unemployment rate of 10.2 percent.



In spite of the economic troubles, Houston's population growth continues to outperform the national average, but has slowed compared to recent years. The metro area's population expanded by 2.1 percent on a year-over-year basis as of August 2009, which is about double the national average. The slowdown has been a direct result of the ongoing economic downturn, as less people seek to relocate during economic uncertainty. The 10-county Houston-Sugar Land-Baytown metropolitan statistical area witnessed a net loss of 76,700 non-farm jobs within the last 12 months ending September 2009, according to the Texas Workforce Commission. Although significant, this represents an improvement from the 12-month net loss of 101,400 jobs recorded in August of 2009. However, considering the U.S. has lost over 7 million jobs since December 2007, Houston is faring better than many other markets across the nation. The job losses the nation has incurred since the recession hit is 60 percent greater than the double-dip recession of the 1980s.

Houston's strong economic base continues to be a key factor driving both domestic and international migration trends. Houston is currently home to 29 Fortune 500 companies, helping Texas surpass the state of New York for the highest number.

The healthcare industry in Houston makes up the bulk of the area's top 10 largest employers and remains one of the more stable industries in the region. This sector added 5,900 jobs over the past year, a 2.4 percent growth rate since September of 2008. Memorial Hermann, Texas Children's and Methodist Hospitals are all expanding their Texas Medical facilities. In addition, private practices are developing new facilities, which include the Oak Bend Doctor's Centers off of Grand Parkway and Southwest Freeway. The Texas Medical Center (TMC) represents one of Houston's major economic drivers with an estimated \$9.9 billion economic annual impact to the area. The TMC employs more than 70,000 people and is currently undertaking billions of dollars worth of expansion in order to fill the void of healthcare workers and needed medical services for the expanding population. Upon completion in 2014, the Texas Medical Center is expected to have added more than 30,000 employees and increased its operating footprint to nearly 40 million square feet.

With reduced energy prices, many oil and natural gas companies have transitioned from expansion to contraction. Consequently, the

professional and business services sector, which is largely supported by the energy industry, continues to shrink. As of September 2009, this sector has witnessed 15,500 jobs lost, or a decline of 4.1 percent on a year-over-year basis. With oil and gas prices lower than its peak recorded during the summer of 2008, these companies can no longer justify expansion and will likely see more job losses over the course of the next year.

While the energy sector comprises approximately half of the regional economy, trade and manufacturing also factor towards the area's financial health. The slowdown in the oil and gas sector also trickled down into the manufacturing sector, which was hit hard in 2009. Houston's manufacturing industry is dominated by oil field service equipment manufacturers and as the active rotary rig count has dropped from 2,000 to just over 1,000, so has demand for oil field equipment. It will take some time for the manufacturing industry to recover as an average of 2,000 active rotary rigs are needed to use up the surplus equipment that was produced during the latest boom. As a result, the manufacturing sector lost 16,200 jobs within the past 12 months ending September 2009, with future losses anticipated in 2010.

On a positive note, the Houston Purchasing Managers Index (PMI), a short-term leading indicator of regional production, rose in September 2009 for the sixth consecutive month, returning to neutral (50) after reaching its lowest level of 39 in March of 2009. Readings above 50 indicate expansion in regional production while a reading below 50 indicates contraction.

According to Dr. Barton Smith, an economist at the University of Houston's Center for Public Policy, a trend to watch for is the shift from natural gas exploration - which has made up the majority of the exploration in previous years - to oil exploration. The reason behind the shift is that companies are not able to justify natural gas exploration at current prices, which are predicted to dip again with the current surplus of natural gas reserves. It is more lucrative to drill for oil given the recent price appreciation to levels above \$80 per barrel.

The hardest hit sector was the construction industry which has fallen sharply over the past year, witnessing 19,400 jobs lost, equating to a 9.6 percent decline. Developers are having a difficult time obtaining construction loans for commercial development while residents are finding it tougher to get approved for mortgages. On the bright side, with the dramatic slowdown in construction activity taking place both on the commercial and residential side, the market will have a chance to return to normalcy as demand catches up to supply. Looking ahead, there is promise in Houston for future trade with East Asian markets, and the Panama Canal expansion will be critical in accommodating larger vessels. The completion of the Panama Canal in 2014 is predicted to triple freight tonnage at the Port of Houston, according to Moody's Economy.com. The Panama Canal's expansion will make way for larger vessels that will increase not only cargo traffic along the Houston Ship Channel, but also the need for improved logistics and rail.

The forecast for 2010 will be more of the same as area businesses remain cautious in their operational decision making. Most expansion plans will be shelved until companies see an increase in demand for their goods or services. Houston's economy is very close to the bottom but is not quite there yet. However, it appears that the worst is behind us but the pending recovery will be slow. According to Dr. Barton Smith, the greater Houston area is projected to lose somewhere between 12,000 to 14,000 jobs in 2010, which is not great news, but a drastic improvement from 2009.