Sperry Van Ness™
Commercial Real Estate Advisors

The Top Trends and Markets to Watch in 2013

New Drivers of Growth

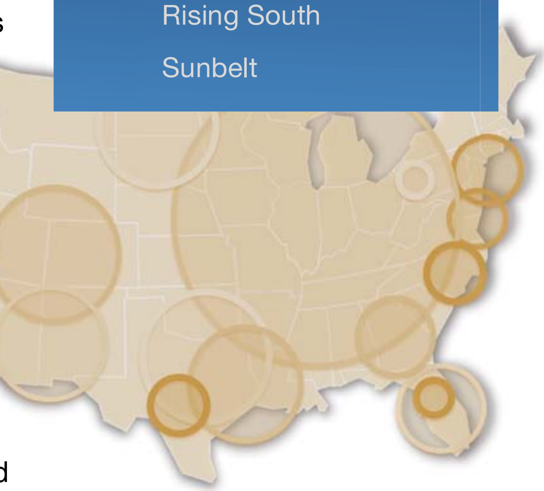
From the fast-growing tech markets of the New Economy to the Great Shale Rush, the unexpected resilience of the nation's manufacturing centers, and a nascent turnaround in housing, drivers of growth are emerging in metro areas – both large and small – across the United States. However measured the pace, the underpinnings of renewed expansion and commercial real estate performance are coming to light with surprising geographic and industry diversity.

The fastest growing markets in the country are not the most prominent or those already well trodden by the largest institutional buyers. Instead, they are widely differentiated, demanding deep local knowledge and flexibility in operating and investment strategies. In these environs, the occupancy rate of Oklahoma City's office buildings is rising on the wings of its flourishing energy sector; in Nashville, new residents are filing into apartments downtown, where Music City Center and other civic projects have dramatically altered the city's investment equation; and across manufacturing centers in Ohio, Indiana, and Michigan, a generational decline in competitiveness shows signs of reversing itself, fueling demand for modern industrial space along a supply chain that reaches from the Nation's Foundry to both of its coasts.

Balancing the potential for stronger growth, investors remain acutely aware of the recovery's daunting challenges and the possibility of reversals. The country's political straits are among the most obvious obstacles to renewed business investment and hiring, but they are not the full measure of our economic constraints. With these qualifiers in mind, investors' are responding – cautiously but positively – to improved access to credit and tolerance for risk-taking, confident in commercial real estate's long-term value proposition.

8 Market Clusters

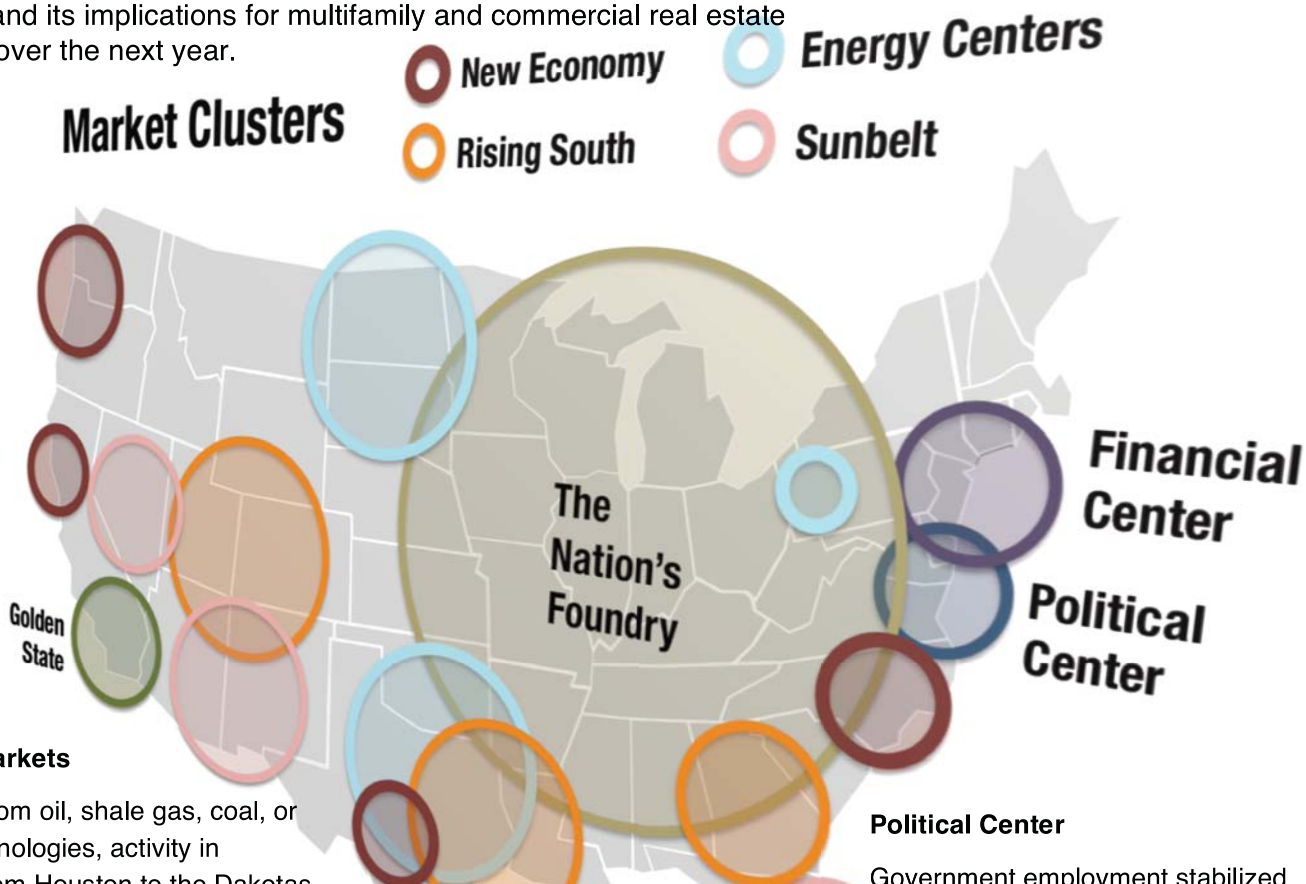
- Energy Centers
- Financial Center
- Golden State
- Nation's Foundry
- New Economy
- Political Center
- Rising South
- Sunbelt



Sperry Van Ness

The Top Trends and Markets to Watch in 2013

Where is opportunity in 2013? In markets across the country, the emerging drivers of growth and individual property performance run across city limits and beyond the rankings. This report highlights the geography of recovery and its implications for multifamily and commercial real estate investors over the next year.



Energy Markets

Whether from oil, shale gas, coal, or green technologies, activity in markets from Houston to the Dakotas is rekindling prospects for North American energy independence.

Financial Center

Keystones of the national and global financial industry, these markets are working to reassert themselves in the aftermath of the financial crisis. They must still grapple with years of regulatory reform.

Golden State

Southern California, on its own the 15th largest economy in the world, registers some of the nation's largest population growth centers.

The Nation's Foundry

A chance at renewal in the heartland with a revivified auto sector at its core, the Nation's Foundry extends from its traditional centers in the Midwest to the factory floors of Alabama, Mississippi, and Tennessee.

New Economy

Among the first markets to rebound, hubs of technology and innovation in fields ranging from software to pharmaceuticals are now contending with shortfalls in high skill labor.

Political Center

Government employment stabilized the Beltway economy during the recession. It may prove a liability in an era of spending cuts, even as the market diversifies into other industries.

Rising South and the Sunbelt

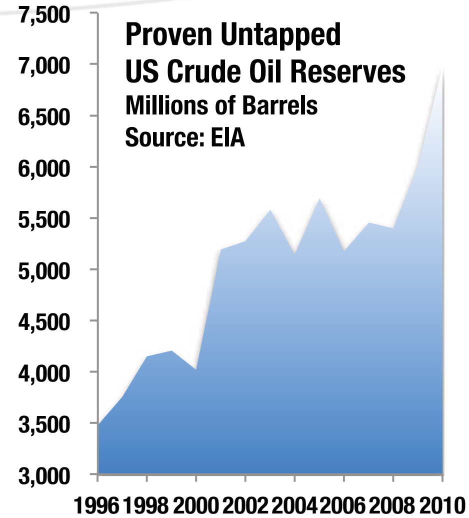
Florida will overtake New York as the third most populous state in the Union within the next two years. Drivers of growth along its High Tech Corridor, and in markets including Denver, Las Vegas, and Phoenix, debunk old notions of snowbirds retreating to staid retirement communities.

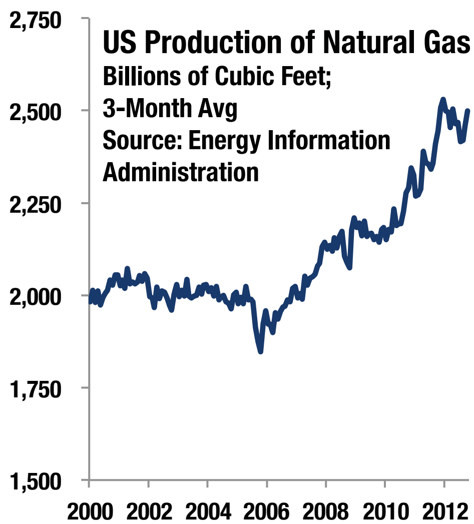
ENERGY CENTERS

Recent advancements in drilling and extraction technology are ushering in a new era of energy-related economic growth. North American energy independence, considered utterly implausible just a few years ago, may be viable if exploration yields additional reserves in Canada and the United States. The clearest example of a market rising with the energy sector is Houston, home to many of the world's largest energy firms and the first major economy in the nation to recoup the number of jobs lost during the recession.

Beyond mainstay energy markets, shale gas exploration and the identification of new reserves are quickly becoming significant drivers of job growth and infrastructure investment, often in parts of the country that have otherwise struggled to improve their economic prospects. Less than a decade after damage from Hurricane Katrina pushed the country to a natural gas shortage and sent prices spiking in 2005, the United States is on track to supplant Russia as the world's leading gas producer. US gas prices are projected to remain low for many years, containing production costs for a range of materials either made with natural gas or produced in gas-powered refineries and plants.

The geographic impact of the shale gas boom is impressive. Drilling and exploration are bringing new activity to Arkansas' Fayetteville Shale, as well as to Alabama, Louisiana, and the distant markets of North Dakota. In Western Pennsylvania, drilling permits increased threefold between 2008 and 2009, invigorating the market for land sales. In the most optimistic scenario, gas extraction may create as many as 200,000 jobs in Pennsylvania, Ohio, and West Virginia before the end of the decade.





Top Producers of Natural Gas

1	Texas
2	Louisiana
3	Wyoming
4	Offshore – Gulf of Mexico
5	Oklahoma
6	Colorado
7	Pennsylvania
8	New Mexico
9	Arkansas
10	Utah

Access to oil deposits is also transforming some markets. In the Bakken oil fields of North Dakota, small cities such as Williston have nearly doubled in population since the recession, creating housing shortages, sending rents skyrocketing, and introducing potentially costly volatility. Closer to major centers, drilling field service firms vie for any available industrial space along the Highway 85 corridor north of Denver. Oklahoma City, an oil town and home to the world's two largest gas companies, is among the fastest growing cities in the nation.

FINANCIAL CENTER

New York has staged the strongest commercial real estate investment recovery of any US market. By late 2012, trophy office and apartment buildings were trading above their pre-crisis peaks. Cap rates had fallen below 5 percent for Manhattan office properties and below 4 percent for high-rise multifamily assets. Behind New York's momentum, institutional investors from around the world have flocked to the city in search of a safe harbor from economic and political convulsions on the global stage. In its latest annual survey of cross-border investors, the Association of Foreign Investors in Real Estate (AFIRE) reports New York at the top of the list, ahead of London.

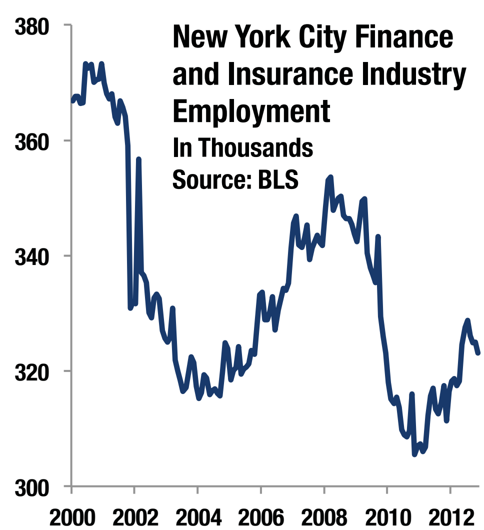
For all of its headline-making deals, New York's recovery is qualified in two important respects. The lion's share of trading activity has been at the top end of the market. Mid-cap properties in many borough submarkets, in Northern Jersey, and in Connecticut come to market at measurably higher yields, still wider than historic norms. The scale and pricing of these assets offers buying opportunities to a surprisingly wide range of investors.

Ranking of Global Markets for Real Estate Investment

1	New York
2	London
3	San Francisco
4	Washington DC
5	Houston
6	Paris
7	Sydney
8	Munich
9	Boston
10	Stockholm

Source: AFIRE; January 2013

Apart from investment trends, New York as a global financial capital has seen a mixed recovery. The city has more than recouped the jobs it lost during the recession, but the biggest gains have not come from financial services, where employment is still well below its 2007 peak. Even as profits at banks and securities firms have improved, their payrolls have lagged. Only a handful of other markets, including Charlotte, are as sensitive to the uncertainties hanging over the banking sector. 2013 may be a watershed year, as many of the reforms enacted with Dodd-Frank will move from paper to practice and the Consumer Financial Protection Bureau will take a more active role in the industry. For better or worse, the related uncertainties will fall away. In the meantime, there are risks that reform will inhibit growth in New York's foundational industry. And so the city and region are working to foster other industries. One of New York City's most ambitious projects involves the creation of a new technology campus on Roosevelt Island.



GOLDEN STATE

If California were a country unto itself, it would boast the eighth largest economy in the world. A measure of Southern California's contribution to that result, it would be the world's fifteenth largest, just behind Mexico and ahead of the Bay Area.

After painful government budget cutting and a sharp correction in the housing-related and construction industries, Los Angeles is back on an economic growth track with modest net employment gains and an expectation for continued improvement in 2013. Health services and education have provided thousands of new jobs as twin engines of recovery, followed closely by information services, which benefits from Hollywood's film and television production activity. Hospitality, too, has become a strong employment driver as the national economic recovery supports measured increased in leisure spending and tourism.

While impacted by recent strikes, the Ports of Long Beach and Los Angeles directly and indirectly employ more than 600,000 Golden State residents. They are investing nearly $6 billion in the largest expansion effort in port history, generating construction jobs for the next decade while helping to retain the region's market share of Asian imports.

Orange County enjoys the lowest unemployment rate in the region, and its two decades as Southern California's jobs leader have buoyed the economies of Irvine, Costa Mesa, Newport Beach, Laguna Beach and Newport Coast. Real income growth in this area has consistently outpaced the state average.

Relatively stable employment resulted in fewer home foreclosures in Orange County than in many other California markets, enabling the OC to retain some of the highest median home values in the state. Within Orange County, the communities of Santa Ana and Anaheim have become predominantly Latino, and an influx of Asian and Latino immigrants to Southern California over the past half-century correlates with increased apartment demand and property values.

US Counties with the Largest Population Increases

1	Harris, Texas
2	**Los Angeles, California**
3	Maricopa, Arizona
4	Miami-Dade, Florida
5	**Riverside, California**
6	Dallas, Texas
7	**Orange, California**
8	**San Diego, California**
9	Bexar, Texas
10	Tarrant, Texas
	Source: BLS; Q1 2010 to Q2 2012

Southern California has its share of challenges, ranging from severe congestion to persistent strains on local and state budgets. The latter have not eased with the improving economy. San Bernardino, which offers a sharp contrast to Orange County, declared bankruptcy in mid-2012. That has prompted a bitter legal feud with the California Public Employees Retirement System (CalPERS), the largest US pension fund.

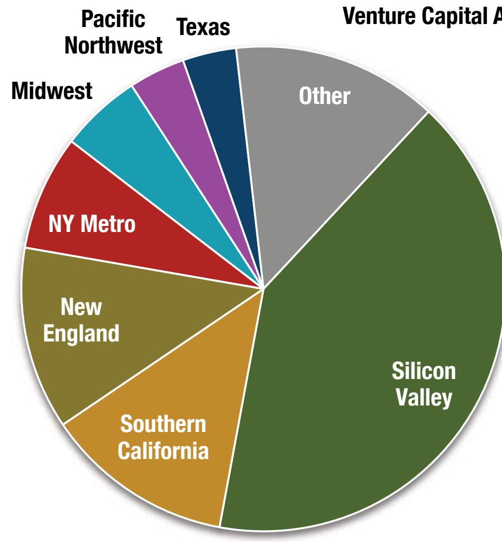
The state government's fiscal woes have eased over the last year, but remain daunting. Efforts to raise local and state taxes could easily backfire if they prompt more businesses to consider viable alternatives for relocation or expansion in the Southeast.

NEW ECONOMY

Backed by a new generation of venture capital, high tech has once again emerged as a major driver of US employment growth. That growth is driving demand for office space in the established tech markets including San Jose and the San Francisco Bay area, Boston, Seattle, Portland, Raleigh and Durham in North Carolina, and Austin, Texas. Add to that list several markets with emerging tech clusters or a focus on green technology including Denver, Boulder, and Tucson. Each of these markets offers lower cost of living and business start-up costs than the pricey Bay Area and established tech metros.

Social networking is at the forefront of the latest tech boom, and a preference for urban living among young employees at the leading firms is fueling a downtown renaissance in many markets. Developers and investors are scrambling to meet that demand by providing new high-rise residential projects in cities like Austin. The same urbanization trend favors unusual, sometimes architecturally significant office space in urban cores. Software firms have surpassed law firms and other traditional downtown occupiers as the dominant source of signed leases in some tech downtowns, although manysuburban properties face an uphill battle in competing for software tenants. As investors grow weary of the diminishing returns available in gateway cities, many will find opportunities for larger margins in secondary metros where technology is only just emerging as a meaningful source of employment growth and real estate demand. Opportunities are not limited to office or research and development projects: a shortage of desirable housing is forcing apartment rents in places like Austin and San Jose to skyrocket, prompting aggressive trades and a deepening development pipeline.

Venture Capital Investment in 2012 by Region
Source: PWC/National Venture Capital Association



Green Job Intensity by State
Share of State Employment in Green Sectors

1	Virginia
2	Pennsylvania
3	Washington
4	Colorado
5	Oregon
6	Arkansas
7	Maryland
8	Idaho
9	Alaska
10	District of Columbia

Source: Economic Policy Institute

Green Jobs by State

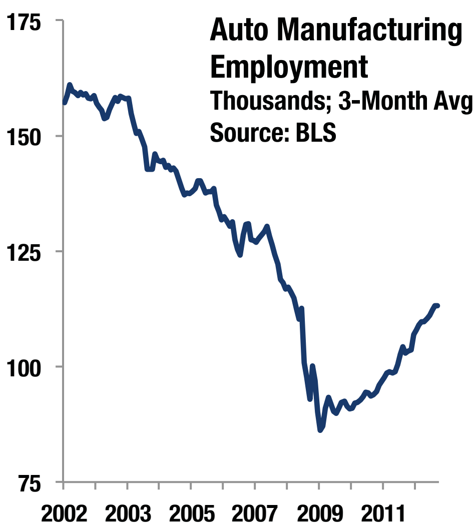
1	California
2	New York
3	Texas
4	Pennsylvania
5	Illinois
6	Ohio
7	Florida
8	Washington
9	Virginia
10	Maryland

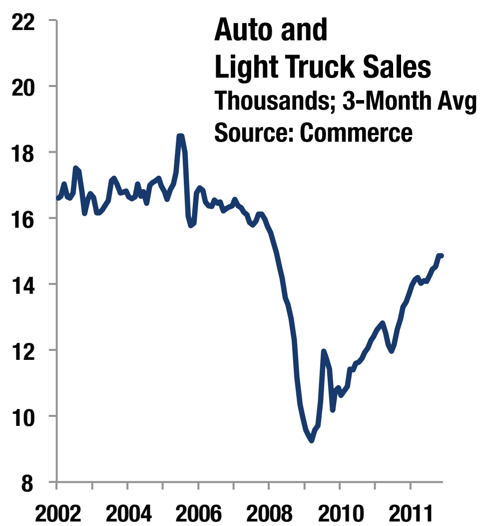
Source: Economic Policy Institute

THE NATION'S FOUNDRY

"Made in the USA" is making a comeback, from food manufacturing near the nation's population centers to specialized parts fabrication and a rebounding automotive industry in the Midwest and further south.

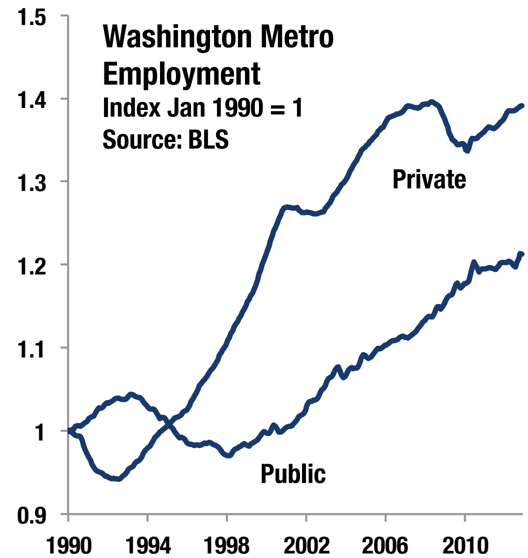
Manufacturing activity surpassed its pre-recession peak at the end of the first quarter in 2011, as manufacturers adopted new automation tools to expand output. Nearly two years later, increased confidence in the recovery has yielded hiring gains as well. Automotive sales of 1.14 million vehicles in November 2012 equated to an annualized rate of 15.5 million, the highest rate in four years and approaching pre-recession totals. Many consumers who delayed automotive purchases in recent years are now replacing aging vehicles with more fuel-efficient models. All three of Detroit's major automakers are posting stellar earnings after bringing shuttered factories and assembly plants back to life and touching off a ripple effect of industry throughout the Midwest. Western Michigan, which offers non-union, skilled labor, has experienced an industrial renaissance and is manufacturing goods that range from special automotive parts to food, pharmaceuticals and custom, low-volume product lines. Coupled with the reduced cost of natural gas brought about by recent innovations in drilling, manufacturers that rely on gas as a raw material or for fuel have drawn down production costs, providing a rare competitive edge over foreign competitors. Looking ahead, wage growth in China, India, and other countries that benefitted from offshoring by US companies in the past decade have lost some of their savings appeal, strengthening the case for domestic manufacturing. Simultaneously, the rapidly growing middle class in many developing nations is creating a larger market for the export of US manufactured goods.



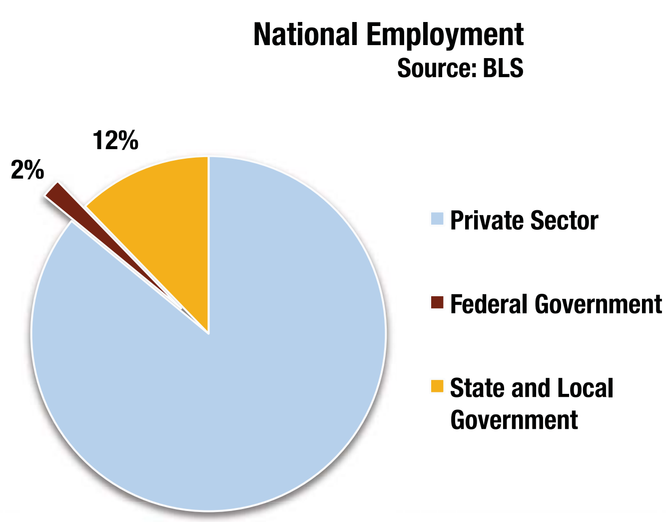


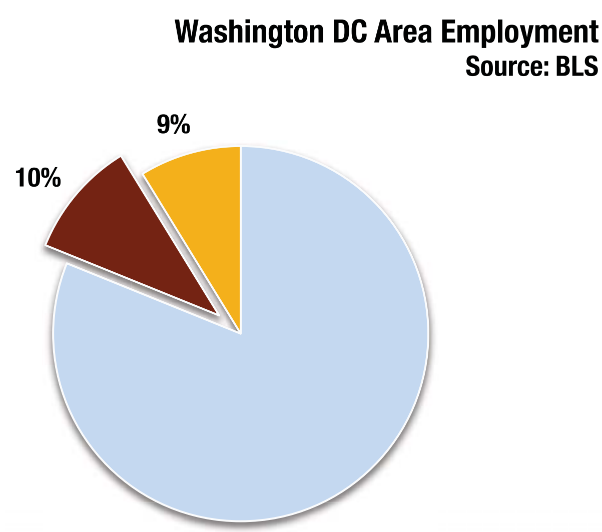
POLITICAL CENTER

Washington DC and the surrounding markets in Virginia and Maryland have been the primary beneficiaries of big government for a generation. The convergence of federal employees, politicians, lobbyists, and defense contractors softened the recession's impact on the Political Center. But government is not the only growth driver for the region. Washington has been known as a leading tech market since the 1990s, when America Online first enlivened Tysons Corner. Two decades later, the region is still home to its share of startups. It ranks just behind eighth-placed Texas in its share of venture capital investment.



While buyers are pursuing core apartment and office properties aggressively, investment in the capital region is not without its risks. If the political class makes substantial progress in reducing government spending and putting the government on the road to a balanced budget, federal payrolls could see large cuts. That would threaten the region's economy and the real estate market, as well. The apartment sector could be hardest hit, given the region's large number of multifamily development projects. A smaller, more cost-conscience government would need less office space than it does today, undercutting a primary driver of office absorption in the heart of the Political Center.





RISING SOUTH AND THE SUNBELT

The Sunbelt has benefited historically from both domestic and international migration due to its relatively mild winters and low cost of living compared with markets in the Northeast and Midwest. The housing crisis reduced mobility for many Americans, but migration is again swelling the populations of many Sunbelt cities such as Hinesville, Georgia, where military spending contributed to one of the nation's largest increases in personal income during 2010. Another rapid-growth metro area is McAllen-Edinburg-Mission, where a low cost of living and proximity to the Mexican border has attracted several large electronics manufacturers.

With the housing correction giving way to stabilizing home prices in some of the Sunbelt cities hardest hit by the housing bust, markets including Las Vegas, Phoenix, and Miami are once again seeing growth from new arrivals and the contribution of housing to their local and regional economies. Deflated post-recession property values in the commercial space offer unprecedented acquisition opportunities and lowered property taxes in Las Vegas, while the decline in office and industrial rents fuels leasing activity in Atlanta and Phoenix. Employment growth is projected to remain strong in Phoenix, the nation's 10th fastest-growing metro. The absorption and conversion of Miami's surplus residential condominiums to apartments, hotels and other uses has helped to stabilize asset values there, with transaction prices for some properties in Miami Beach reaching pre-recession levels.

Tourism and healthcare are mainstay industries in Florida, but high tech is emerging as a significant source of growth in a corridor stretching from Orlando to Tampa. Ports in Florida and along the Gulf Coast are investing billions of dollars to construct new terminals and dredge channels to handle larger ships in preparation for increased shipping anticipated after completion of the Panama Canal expansion in 2015.

Fastest Growing States

1	North Dakota
2	**Texas**
3	**Utah**
4	**Colorado**
5	Alaska
6	**Florida**
7	Washington
8	**Arizona**
9	**Georgia**
10	South Dakota
	Source: BLS; Ranked by Growth Rate

States With the Highest Net Domestic Immigration

1	**Texas**
2	**Florida**
3	**North Carolina**
4	Washington
5	**Colorado**
6	**South Carolina**
7	**Tennessee**
8	**Georgia**
9	**Virginia**
10	Oregon
	Source: BLS; Ranked by Total Net Immigration

Metro Area	Economy		Jobs		Housing	
	Economy Bottom	Change from Bottom	Unemployment Rate Peak	Change from Bottom (BPS; 100 BPS = 1%)	House Price Bottom	Change from Bottom
Albuquerque	2008 Q2	5.1%	2010 Q3	-173	2012 Q2	1.3%
Allentown / Bethlehem	2009 Q3	4.8%	2010 Q1	-61	2012 Q2	0.9%
Atlanta	2009 Q3	8.0%	2009 Q4	-197	2012 Q2	1.1%
Austin	2009 Q3	15.8%	2009 Q4	-157	2011 Q2	2.6%
Baltimore	2009 Q2	7.7%	2010 Q1	-129	2012 Q2	0.8%
Boise City	2009 Q2	9.4%	2010 Q4	-224	2011 Q2	7.5%
Boston / Cambridge	2009 Q3	11.1%	2009 Q4	-230	2012 Q2	0.7%
Bridgeport / Stamford / Norwalk	2009 Q3	7.8%	2010 Q4	-67	2012 Q2	0.5%
Buffalo	2009 Q2	5.2%	2012 Q3	0	2012 Q2	0.9%
Cape Coral / Fort Myers	2012 Q2	0.2%	2009 Q4	-417	2011 Q3	6.1%
Charlotte	2009 Q3	7.3%	2010 Q1	-274	2012 Q2	1.3%
Chattanooga	2009 Q3	11.2%	2009 Q2	-209	2012 Q3	0.0%
Chicago	2009 Q3	5.3%	2009 Q4	-272	2012 Q2	0.6%
Cincinnati	2009 Q3	4.7%	2010 Q1	-324	2012 Q3	0.0%
Cleveland	2009 Q3	3.4%	2009 Q3	-221	2012 Q2	0.5%
Colorado Springs	2009 Q2	7.3%	2010 Q3	-48	2012 Q2	1.8%
Columbus	2009 Q3	4.5%	2010 Q1	-330	2012 Q2	1.3%
Dallas / Fort Worth	2009 Q3	14.9%	2010 Q1	-165	2011 Q2	1.0%
Denver	2009 Q3	6.5%	2010 Q1	-117	2011 Q2	2.7%
Detroit	2009 Q3	9.6%	2009 Q3	-524	2012 Q2	1.9%
El Paso	2009 Q2	13.0%	2011 Q2	-139	2012 Q2	0.1%
Fresno	2011 Q3	1.8%	2010 Q3	-217	2012 Q2	2.6%
Grand Rapids	2009 Q3	12.4%	2009 Q4	-490	2012 Q2	1.0%
Hartford	2009 Q2	8.4%	2010 Q3	-60	2012 Q2	0.2%
Houston	2008 Q3	15.3%	2010 Q1	-190	2011 Q2	2.9%
Indianapolis	2009 Q2	5.1%	2010 Q1	-182	2012 Q2	0.6%
Jacksonville	2009 Q3	3.4%	2010 Q1	-288	2012 Q2	2.7%
Kansas City	2009 Q3	3.6%	2009 Q4	-253	2012 Q2	0.8%
Knoxville	2009 Q3	11.6%	2009 Q2	-258	2012 Q2	0.7%
Las Vegas	2009 Q3	3.6%	2010 Q4	-260	2012 Q2	1.9%
Little Rock	2010 Q1	3.4%	2011 Q3	-83	2012 Q2	0.0%

Sources: Brookings, BEA, FHFA

Metro Area	Economy: Economy Bottom	Economy: Change from Bottom	Jobs: Unemployment Rate Peak	Jobs: Change from Bottom (BPS; 100 BPS = 1%)	Housing: House Price Bottom	Housing: Change from Bottom
Los Angeles	2009 Q3	7.7%	2010 Q3	-220	2012 Q2	1.4%
Louisville	2009 Q2	7.8%	2009 Q4	-249	2012 Q2	0.4%
Madison	2009 Q2	6.7%	2009 Q4	-132	2012 Q2	0.1%
Memphis	2009 Q3	7.1%	2009 Q4	-161	2012 Q2	1.6%
Miami / Fort Lauderdale	2009 Q3	3.0%	2010 Q3	-284	2012 Q2	2.3%
Modesto	2009 Q4	3.7%	2010 Q1	-210	2012 Q2	4.1%
Nashville	2009 Q3	11.9%	2009 Q2	-284	2012 Q2	1.5%
New Orleans†	2005 Q4	24.2%	2010 Q4	-65	2011 Q2	1.4%
New York	2009 Q2	6.4%	2009 Q4	-17	2012 Q2	0.2%
North Port / Sarasota	2009 Q3	2.8%	2010 Q1	-368	2012 Q2	3.8%
Oklahoma City	2009 Q3	6.8%	2009 Q4	-205	2011 Q2	1.2%
Palm Bay	2009 Q2	2.7%	2009 Q4	-214	2012 Q2	1.8%
Philadelphia	2009 Q3	3.6%	2010 Q1	-26	2012 Q3	0.0%
Phoenix	2009 Q3	8.3%	2010 Q1	-324	2011 Q2	10.1%
Portland (Oregon)	2009 Q2	21.0%	2009 Q2	-315	2012 Q2	2.3%
Providence	2009 Q3	3.3%	2010 Q1	-162	2012 Q2	0.4%
Raleigh	2009 Q3	8.9%	2010 Q1	-174	2012 Q2	1.3%
Sacramento	2009 Q3	4.2%	2010 Q3	-242	2012 Q2	2.6%
Salt Lake City	2009 Q2	12.6%	2009 Q4	-293	2012 Q2	2.6%
San Antonio	2009 Q2	10.3%	2011 Q2	-123	2012 Q3	0.0%
San Diego	2009 Q3	10.4%	2010 Q1	-199	2012 Q2	1.8%
San Francisco	2009 Q3	7.4%	2010 Q1	-249	2012 Q2	2.6%
San Jose	2009 Q3	21.3%	2009 Q4	-336	2012 Q1	3.2%
Seattle	2009 Q3	8.8%	2009 Q4	-193	2012 Q2	2.1%
St Louis	2009 Q3	5.3%	2009 Q4	-298	2012 Q2	0.1%
Tampa / St Petersburg	2009 Q4	4.7%	2010 Q1	-331	2012 Q2	2.3%
Toledo	2009 Q2	8.0%	2009 Q2	-529	2012 Q2	0.3%
Washington Metroplex	2009 Q2	6.4%	2009 Q4	-132	2012 Q2	1.4%
Worcester	2009 Q3	13.9%	2009 Q4	-222	2012 Q2	0.4%

† New Orleans economic trough followed Hurricane Katrina
Sources: Brookings, BEA, FHFA

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Top Trends and Markets to Watch Reports

Trends Driving Commercial Real Estate in 2013
Apartment Trends and Top Markets to Watch in 2013
Industrial Trends and Top Markets to Watch in 2013
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