

US CMBS: Red - Yellow - Green[®] Update, Third Quarter 2007

Quarterly Assessment of U.S. Property Markets

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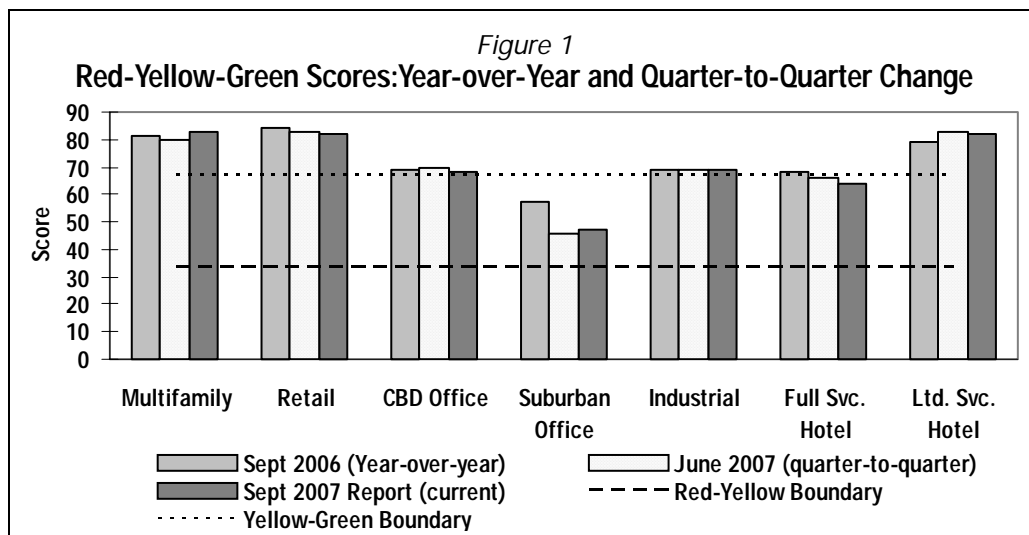
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OVERVIEW

Although the possibility of an economic slowdown has increased since a quarter ago, property market fundamentals remain basically strong. This means that, should job growth and the economy more broadly falter, commercial real estate generally starts from a position of relative strength. Despite recent disruptions in credit markets generally and structured finance in particular, property markets that support commercial mortgage backed securities (CMBS) are by and large healthy.

Moody's quarterly Red-Yellow-Green[®] report reflects our assessment of major commercial real estate markets that support commercial mortgage backed securities (CMBS). This report is based on data from the second quarter of 2007.

For the third consecutive quarter, five of the seven property types are green and fewer than 9% of individual markets have red scores. The suburban office sector continues to be the straggler, with a score of 47, and the full-service hotel sector deteriorated further into yellow territory with a score of 64. Overall year-over-year and quarter-to-quarter performance was mixed, as over both time frames two sectors improved their composite scores while four sectors' scores deteriorated and one remained the same.



The multifamily sector gained three points this quarter moving even farther into green territory with a composite score of 83. Overall, 50 of the 60 markets are green, with the remaining ten in yellow territory and no red markets. The marginal supply-demand imbalance of -0.3% is narrower than last quarter's -0.7%. The difficulties in the single-family mortgage market might very well generate more demand growth, benefiting the apartment market, albeit sadly for the households so affected. On the other hand, another "wild card" could have the opposite effect. Construction of condominiums is still very robust in some places, and some of that new supply could become multifamily rental units if the condo sales market were to soften in tandem with uncertainty in the mortgage market.

Community shopping centers held on to their noteworthy stability with a score of 82, a miniscule departure from last quarter's 83, as virtually all of the variables that contribute to the score remained nearly the same. Overall the supply-demand relationship is very healthy, as growth in demand is expected to outpace new supply by 4.1%. Furthermore, the ten largest markets all have very healthy supply-demand relationships, most exceeding the national composite.

Offices in central business districts (CBDs) are losing some traction as the score dipped to 68, shedding two points for the second quarter in a row. Although demand expectations held steady, a supply pipeline that has been climbing throughout the year picked up pace this period and widened the supply-demand imbalance to -1.2% from -0.7% a quarter ago. Despite the up-tick in construction, vacancy dropped to 9.9%, the first time vacancy has been in the single-digit range and the lowest rate since the fourth quarter of 2001. Out of the ten largest markets, only four are green compared to seven last period, which pulls the composite score down since this handful of large markets make up roughly three-quarters of all CBD space.

The picture is a little brighter in suburban office markets as the sector reversed course after four consecutive quarters of falling scores, picking up a point to yellow 47. With a tiny increase in demand, the supply-demand imbalance tightened a bit. Coupled with a modest decline in vacancy, the score propped up ever so slightly.

The industrial sector held steady once again with an unchanged composite score of 69. The construction pipeline remained stable at 1.1%, but there was a very slight softening in demand, both on the composite level and for 37 markets, or nearly three-quarters of the sector. The result was a wider supply-demand relationship of -0.3%, versus -0.2% last quarter.

The full-service hotel score dropped two points to 64 due to deterioration in the supply-demand imbalance. New supply growth increased slightly, but a significant drop-off in expected demand growth tipped the balance. Nevertheless, year-over-year growth in revenue per available room (RevPAR) remains strong as in previous quarters, and the current RevPAR level continues to exceed the baseline target for a second quarter.

The score for limited-service hotels remains strong at 82, slipping a point from last quarter's score of 83. Like its full-service counterpart, forecasted supply growth continues at a minimum. However, the forward demand expectation picked up slightly for an overall positive supply-demand relationship of 4.6%. RevPAR continues to grow at a moderate pace, although signs of slowing have become apparent in certain markets.

Figure 2

**Market Stress Comparison
1st Quarter 2007 and 2nd Quarter 2007**

	Multi-Family	Retail	Office: CBD	Office: Suburban	Industrial	Hotel: Full Svc.	Hotel: Ltd. Svc.
Red							
2Q 2007	0	0	8	14	3	6	1
1Q 2007	1	0	9	15	2	8	2
Yellow							
2Q 2007	10	13	29	32	23	33	12
1Q 2007	10	12	22	30	21	28	16
Green							
2Q 2007	50	40	9	6	25	10	35
1Q 2007	49	41	15	7	28	13	30
No. of Markets							
2Q 2007	60	53	46	52	51	49	48
1Q 2007	60	53	46	52	51	49	48
Composite Score							
2Q 2007	G: 83	G: 82	G: 68	Y: 47	G: 69	Y: 64	G: 82
1Q 2007	G: 80	G: 83	G: 70	Y: 46	G: 69	Y: 66	G: 83

Figure 3

Markets with Greatest Deterioration or Improvement

Market	2Q Score	1Q Score	Change
Greatest Deterioration			
Baltimore Full-Service Hotel	R: 9	Y: 52	-43
Miami CBD Office	R: 12	Y: 53	-41
Charlotte CBD Office	Y: 49	G: 88	-39
Jacksonville Industrial	R: 28	Y: 63	-35
Raleigh Full-Service Hotel	Y: 48	G: 83	-35
West Palm Beach Full-Service Hotel	Y: 43	G: 77	-34
Nashville CBD Office	R: 0	R: 33	-33
Sacramento CBD Office	Y: 42	G: 67	-25
New York Full-Service Hotel	G: 70	G: 94	-24
San Diego Full-Service Hotel	Y: 45	G: 69	-24
Columbus Full-Service Hotel	Y: 38	Y: 61	-23
Phoenix Limited-Service Hotel	G: 78	G: 100	-22
Albuquerque Suburban Office	Y: 51	G: 72	-21
Boston Limited-Service Hotel	Y: 42	Y: 63	-21
Fort Worth CBD Office	Y: 63	G: 83	-20
New York Limited-Service Hotel	Y: 63	G: 83	-20
Tampa Limited-Service Hotel	G: 78	G: 97	-19
San Antonio Full-Service Hotel	R: 0	R: 18	-18
Albuquerque Multifamily	Y: 65	G: 81	-16
Chicago Full-Service Hotel	Y: 48	Y: 64	-16
Tucson Multifamily	G: 73	G: 89	-16
Miami Suburban Office	R: 21	Y: 36	-15
Washington DC Full-Service Hotel	Y: 55	G: 70	-15
Greatest Improvement			
Miami Full-Service Hotel	Y: 49	R: 5	+44
Tucson CBD Office	G: 86	Y: 49	+37
Riverside Suburban Office	Y: 55	R: 22	+33
Detroit Limited-Service Hotel	Y: 43	R: 11	+32
Pittsburgh Full-Service Hotel	G: 70	Y: 39	+31
Detroit Full-Service Hotel	R: 31	R: 2	+29
Edison Full-Service Hotel	G: 69	Y: 43	+26
San Diego CBD Office	Y: 55	R: 29	+26
Charlotte Full-Service Hotel	G: 69	Y: 46	+23
Indianapolis Multifamily	G: 82	Y: 59	+23
Trenton Limited-Service Hotel	Y: 54	R: 31	+23
Fort Worth Limited-Service Hotel	G: 82	Y: 60	+22
San Antonio Multifamily	Y: 60	Y: 40	+20
Miami Limited-Service Hotel	G: 74	Y: 55	+19
Atlanta CBD Office	R: 33	R: 15	+18
Fort Worth Full-Service Hotel	Y: 51	R: 33	+18
Portland Multifamily	G: 84	Y: 66	+18
Memphis Full-Service Hotel	Y: 57	Y: 40	+17
Nashville Suburban Office	Y: 34	R: 17	+17
Cincinnati Full-Service Hotel	Y: 46	R: 30	+16
Jacksonville Multifamily	Y: 40	R: 24	+16

The previous table lists those markets where the score changed from the previous quarter across sectors. The table below, *Figure 4*, is also a cross-sector summary, but of those markets where one of two conditions prevail for the next year going forward:

- **Supply Watch.** New supply is expected to increase the existing inventory over the next year by 5% or more.
- **Supply-Demand Watch.** The growth in supply is expected to exceed the growth in demand over the next year by 5% or more (i.e., the supply-demand imbalance > 5%).

These are markets that, by definition, merit watching.

Figure 4

**Cross-Sector Market Watch:
Vigorous Supply or Potential Supply-Demand Imbalance**

	Supply Watch		Supply-Demand Watch	
Multifamily	None		None	
Retail	Portland	7.7%	None	
	Riverside	5.0		
CBD Office	Las Vegas	23.8%	Las Vegas	-22.9%
	Fort Lauderdale	10.7	Nashville	-9.0
	Nashville	9.8	Fort Lauderdale	-8.3
	Charlotte	7.5	Miami	-7.4
	Miami	5.6	Charlotte	-5.3
	Sacramento	5.1		
Suburban Office	Las Vegas	11.1%	Las Vegas	-10.5%
	Phoenix	10.8	Ventura County	-8.5
	Salt Lake City	7.3	Phoenix	-8.2
	Ventura County	7.2	Miami	-7.1
	Austin	6.7	West Palm Beach	-6.8
	San Diego	6.6	San Diego	-6.2
	Orlando	5.6	Austin	-5.4
	Miami	5.3	Salt Lake City	-5.0
	Cincinnati	5.2		
	Nashville	5.1		
Industrial	Riverside	6.1%	None	
Full-Service Hotel	San Antonio	16.0%	San Antonio	-22.2%
	Baltimore	8.5	Miami	-13.0
	San Diego	7.9	Denver	-12.2
	Raleigh	7.4	Baltimore	-11.5
	Denver	6.5	Fort Worth	-11.4
	Fort Worth	6.3	San Diego	-10.8
	Boston	5.9	Chicago	-8.7
	Phoenix	5.9	Minneapolis	-8.5
	Miami	5.6	Memphis	-8.1
	Richmond	5.6	Boston	-7.9
	Minneapolis	5.5	Raleigh	-7.6
	Chicago	5.4	Washington DC	-7.4
	Detroit	5.3	Albuquerque	-7.0
			Indianapolis	-7.0
			Trenton	-6.9

Figure 4 (Continued)

**Cross-Sector Market Watch:
Vigorous Supply or Potential Supply-Demand Imbalance**

Supply Watch		Supply-Demand Watch	
		Richmond	-6.8
		Detroit	-6.3
		St. Louis	-6.1
		Columbus	-6.0
		Pittsburgh	-5.9
		Austin	-5.7
		Phoenix	-5.5
		Fort Lauderdale	-5.3
		Cincinnati	-5.2
		Seattle	-5.1
Limited-Service Hotel	None	Hartford	-7.1%
		Minneapolis	-5.0

MULTIFAMILY: THE GOOD JUST GOT BETTER

The multifamily sector improved to a green 83 from last quarter's already robust score of 80. Furthermore, 50 of the 60 markets with scores are green, with another ten yellow markets and no red ones. The only red market last quarter, Jacksonville, Fla., improved by a notable 16 points to a yellow score of 40 this period.

The aggregate rate of new construction, 1.6% of inventory, is the same as last quarter. Although that is slightly ahead of the pace of expected growth in demand of 1.3%, the marginal supply-demand imbalance of -0.3% is actually narrower than last quarter's -0.7%. On the other hand, fully one-half of all markets, 30, are expected to see growth in supply outpace demand, and in 18 of those by 1% or more.

Most of all, the relatively small imbalance between aggregate growth in supply and demand faces low vacancy rates. The composite vacancy of 4.8% is up from last quarter's 4.7% and from the year earlier 4.0%, but that is still very low. The generally tight market environment is widespread across the spectrum, as no market has double-digit vacancy rates.

Furthermore, the difficulties in the single-family mortgage market, particularly for marginal borrowers, might actually benefit the apartment market as some households who had hoped to become home owners might return to renter status. This could generate somewhat more growth in demand than originally forecast, albeit sadly for the households so affected.

On the other hand, another "wild card" could have the opposite effect. Construction of condominiums is still very robust in some places, and some of that new supply could become multifamily rental units if the condo sales market were to soften in tandem with uncertainty in the mortgage market.

Markets that have seen more delinquencies in CMBS are actually in fairly good shape. For example, in **Dallas** (green, 81), demand growth is expected to be fairly hearty at 3.4% of inventory, which would exceed the pace of new building by 1.6%. This could actually put some downward pressure on the current vacancy rate of 6.3% in that market.

<i>Figure 5</i>		
Multifamily Markets That Improved or Deteriorated		
BETTER: Red ⇒ Yellow	BETTER: Yellow ⇒ Green	BETTER: Red ⇒ Green
Jacksonville (24 → 40)	Birmingham (66 → 73) Cleveland (57 → 68) Indianapolis (59 → 82) Portland (66 → 84) Riverside (64 → 74)	
WORSE: Green ⇒ Yellow	WORSE: Yellow ⇒ Red	WORSE: Green ⇒ Red
Albuquerque (81 → 65) Atlanta (67 → 64) Phoenix (74 → 66) West Palm Beach (71 → 63)		

The Best and the Worst

The three multifamily markets of all 60 markets scored with the strongest and weakest measures on several variables are listed below.

Highest overall score: **Pittsburgh** (green, 100); **Nashville** (green, 93); **Louisville** and **Richmond** (both green, 90).

Lowest overall score: **Jacksonville** (yellow, 40); **Philadelphia** (yellow, 53); **Orlando** (yellow, 59).

Least construction: **Cleveland**, 0.1% (green, 68); **Dayton** (green, 75) and **Tucson** (green, 73), both 0.3%.

Most construction: **Jacksonville**, 4.6%; **Austin**, 4.3% (green, 67); **Charlotte**, 3.8% (green, 69).

Most absorption (better): **Orlando**, 5.1%; **Birmingham**, 4.1% (green, 73); **Houston**, 3.8% (yellow, 65).

Least absorption: **Philadelphia**, -2.7%; **Albuquerque**, -1.1% (yellow, 65); **Cleveland** and **San Diego** (green, 72), both -1.0%.

Best supply-demand relationship (better): **Birmingham**, 3.4%; **Dayton**, 2.0%; **Columbus** (green, 76) and **Dallas** (green, 81), both 1.6%.

Worst supply-demand imbalance: **Philadelphia**, -3.6%; **Jacksonville**, -2.3%; **Albuquerque**, -2.2%.

Lowest vacancy: **Salt Lake City**, 0.9% (green, 75); **Newark**, 1.0% (green, 77); **Edison**, 1.7% (green, 75).

Highest vacancy: **Dayton**, 8.6%; **Memphis**, 8.0% (green, 70); **Houston**, 7.8%.

<i>Figure 6</i>			
Multifamily Market Diagnostic			
	Vacancy High OR Increased Significantly	Vacancy Moderate OR Increased Somewhat	Vacancy Low OR Stable to Falling
Supply Significantly Greater Than Demand OR Supply Growth Alone Very High	Red (0-16)	Red (17-33)	Yellow (34-66) Philadelphia 53 Albuquerque 65
Supply Somewhat Greater Than Demand OR Supply Growth Alone Somewhat High	Red (17-33)	Yellow (34-66) Jacksonville 40 San Antonio 60 Atlanta 64 Houston 65	Green (67-83) Austin 67 Seattle 68 Charlotte 69 Chicago 70 San Diego 72 Orange County 74 Edison 75 Salt Lake City 75 Kansas City 77 Newark 77 Greenville 79 Los Angeles 80
Supply No More Than Slightly Greater Than Demand OR Supply Growth Alone Restrained	Yellow (34-66) Orlando 59 Las Vegas 62 West Palm Beach 63 Phoenix 66	Green (67-83) Cleveland 68 El Paso 69 Memphis 70 Fort Worth 72 Miami 72 Birmingham 73 Tucson 73 Riverside 74 Tulsa 74 Dayton 75 Columbus 76 Raleigh 76 Greensboro 77 Oakland 78 San Francisco 78 Tampa 78 Dallas 81 Indianapolis 82 New York 82 Sacramento 82 Washington DC 82 COMPOSITE 83	Green (84-100) Baltimore 84 Portland 84 Cincinnati 85 Denver 85 Oklahoma City 86 St. Louis 86 Boston 87 Norfolk 87 Fort Lauderdale 88 Honolulu 88 Detroit 89 Minneapolis 89 San Jose 89 Louisville 90 Richmond 90 Nashville 93 Pittsburgh 100

RETAIL RETAINS REPUTATION FOR MARKET STABILITY

Virtually all of the variables that contribute to the retail score remained nearly the same this quarter from last, which in turn fueled the stability of the composite score, a green 82 compared to 83 in each of the last two periods. The supply line of 1.6% of inventory remains the same, as do demand expectations for growth in real personal income of 5.7%. The net effect is to maintain a positive supply-demand relationship of 4.1%, exactly the same as last quarter.

Only one market, **Portland** (yellow, 45), has a negative supply-demand imbalance, attributable to a very hearty pace of new construction of 7.7%, well ahead of even the above-average expected growth in income of 5.8%. Other than Portland, the 15 markets with supply lines greater than the composite average are also expected to see demand growth even more robust, leaving in all cases positive supply-demand relationship with room to spare.

Furthermore, the ten largest shopping center markets all have very healthy supply-demand relationships, most exceeding the national composite of 4.1%, and some exceeding that benchmark by a considerable margin (see *Figure 7*).

Figure 7

Supply-Demand Relationships in the Ten Largest Shopping Center Markets					
Market	Inventory (MSF)	Supply-Demand Relationship	Market	Inventory (MSF)	Supply-Demand Relationship
Chicago	92.6	3.0%	Houston	60.4	5.5%
Atlanta	81.2	5.6	Dallas	58.4	5.8
Los Angeles	65.6	3.5	Philadelphia	56.5	4.3
Wash DC	60.7	4.7	Boston	52.1	3.3
Phoenix	60.7	2.3	Denver	41.0	4.0

Figure 8

Retail Markets That Improved or Deteriorated		
BETTER: Red ⇒ Yellow	BETTER: Yellow ⇒ Green	BETTER: Red ⇒ Green
	Austin (66 → 75) Honolulu (64 → 75)	
WORSE: Green ⇒ Yellow	WORSE: Yellow ⇒ Red	WORSE: Green ⇒ Red
Dallas (67 → 66) Riverside (75 → 66) Sacramento (72 → 65)		

The Best and the Worst

The three retail markets of all 53 markets scored with the strongest and weakest measures on several variables are listed below.

Highest overall score: **San Francisco** (green, 99); **Newark** (green, 97); **Los Angeles** (green, 96).

Lowest overall score: **Portland** (yellow, 45); **Phoenix** (yellow, 48); **West Palm Beach** (yellow, 51).

Least construction: **Bakersfield** (green, 91) and **Trenton** (green, 74), both zero; **Fresno** (green, 87) and **Wilmington** (green, 91), both 0.2%.

Most construction: **Portland**, 7.7%; **Riverside**, 5.0% (yellow, 66); **Phoenix**, 4.6%.

Most demand (better): **Las Vegas**, 8.2% (green, 71); **West Palm Beach**, 7.9%; **Austin**, 7.7% (green, 75).

Least demand: **Detroit**, 3.8% (green, 93); **Cleveland**, 4.2% (green, 89); three markets with 4.8% demand growth, **Honolulu** (green, 75), **Philadelphia** (green, 81), and **St. Louis** (green, 76).

Best supply-demand relationship (better): **Austin**, 6.4%; **Las Vegas**, 6.3%; **Orlando** (green, 67) and **Ventura County** (green, 67), both 5.9%.

Worst supply-demand imbalance: **Portland**, -1.9%; **Riverside**, 1.5%; **Phoenix**, 2.3%.

Lowest SF per capita: **New York**, 2.9 SF (green, 95); **San Francisco**, 6.0 SF; **Los Angeles**, 6.6 SF.

Highest SF per capita: **West Palm Beach**, 18.8 SF; **Fort Lauderdale**, 18.3 SF (yellow, 52); **Jacksonville**, 16.1 SF (yellow, 56).

Figure 9

Retail Market Diagnostic

	SF/Capita Very High OR Increased Significantly	SF/Capita Moderate OR Increased Somewhat	SF/Capita Low OR Stable to Falling
Supply Significantly Greater Than Demand OR Supply Growth Alone Very High	Red (0-16)	Red (17-33)	Yellow (34-66) Portland 45
Supply Somewhat Greater Than Demand OR Supply Growth Alone	Red (17-33)	Yellow (34-66) Riverside 66	Green (67-83)
Supply No More Than Slightly Greater Than Demand OR Supply Growth Alone Restrained	Yellow (34-66) Phoenix 48 West Palm Beach 51 Fort Lauderdale 52 Jacksonville 56 Denver 60 Atlanta 62 Nashville 63 Oklahoma City 63 Fort Worth 64 Sacramento 65 Dallas 66	Green (67-83) Orlando 67 San Diego 67 Ventura County 67 Kansas City 68 Las Vegas 71 Orange County 72 Baltimore 73 Trenton 74 Tucson 74 Austin 75 Honolulu 75 Edison 76 St. Louis 76 Washington DC 77 Albuquerque 78 Indianapolis 79 Tampa 79 Chicago 80 Houston 80 Philadelphia 81 Charlotte 82 San Jose 82 Cincinnati 83 COMPOSITE 82	Green (84-100) Columbus 84 Oakland 86 Boston 87 Fresno 87 Miami 87 Cleveland 89 Salt Lake City 89 Seattle 89 Long Island 90 Bakersfield 91 Minneapolis 91 Wilmington 91 Detroit 93 New York 95 Los Angeles 96 Newark 97 San Francisco 99

CBD OFFICE LOSES TRACTION AS LARGEST MARKETS WEAKEN

The composite score for the CBD office sector remains just inside green territory at 68, losing two points for the second quarter in a row. While expectations for demand growth held steady at 0.5%, the nationwide supply pipeline has been slowly climbing throughout the year and picked up pace this quarter with new construction expected to increase inventory by 1.7%, up from 1.2% last period. The combination results in a widening of the supply-demand imbalance to -1.2% from -0.7% a quarter ago.

The good news is that despite the up-tick in construction, vacancy dropped to 9.9%, down from 10.3% last quarter and 11.3% a year ago. This marks the first time vacancy has been in the single-digit range and the lowest rate since the fourth quarter of 2001. Vacancy has been on the decline for the last several years, but the continuance of supply-side risk calls that trend into question.

<i>Figure 10</i> CBD Office Markets That Improved or Deteriorated		
BETTER: Red ⇒ Yellow	BETTER: Yellow ⇒ Green	BETTER: Red ⇒ Green
Albuquerque (33 → 38) San Diego (29 → 55)	Tucson (49 → 86)	
Worse: Green ⇒ Yellow	WORSE: Yellow ⇒ Red	WORSE: Green ⇒ Red
Charlotte (88 → 49) Fort Worth (83 → 63) Los Angeles (68 → 66) Phoenix (72 → 64) Sacramento (67 → 42) Seattle (70 → 62) Washington DC (67 → 66)	Miami (53 → 12)	

The Big Ten Weaken as Construction Ramps Up

Although the composite score fell, more markets improved (27) than deteriorated (17), while two remained unchanged. But because the ten largest markets comprise nearly three-quarters of all the CBD space, their vitality sways the composite score. This quarter only four of the ten largest markets are green, while the remaining six are in yellow territory. In contrast, last quarter, seven of the ten were green while three were yellow. **Boston** (88) and **New York** (84) flip-flopped as the number one and number two in score among the ten largest markets, followed by **Houston** (72), and **San Francisco** (67) rounding out the list of the largest markets that are green. Once again, all six of the yellow markets have scores above 50, and two are on the border of green and yellow with scores of 66, **Los Angeles** and **Washington DC**.

The supply-demand relationship eroded in all but two of the largest markets largely due to increases in the supply pipelines. Construction is up in seven of the ten markets, with the largest supply pipeline in **Philadelphia**, 3.6% (yellow, 56), followed closely by **Seattle** (yellow, 62), and Washington DC, each with 3.5% new supply expected. On the demand side of the equation, four of the markets exhibited increased demand, three were unchanged, and three saw slight declines, but by no more than -0.4%, a minimal change.

Los Angeles maintains the healthiest supply-demand balance at +1.1%, unchanged from last quarter, followed by Boston at +0.5%, up slightly due to a tiny increase in demand (0.1%). These are also the only two markets where construction is expected to remain flat from the last period. The largest imbalances are in Philadelphia, -3.2%; Seattle, -3.0%; and Washington DC, -2.4%. In Houston and **Pittsburgh** (yellow, 57), supply and demand are in balance. San Francisco and **Chicago** (yellow, 56) lie in the middle with mismatches of -1.5% and -1.9%, respectively.

Although **Las Vegas** (red, 0) is not one of the ten largest markets - indeed, it is one of the smallest (the second smallest after Tucson) - the construction pipeline of 23.8% is an attention-getter. This is clearly an issue of scale that illustrates our on-going concern over small markets. In a small market like Las Vegas of 1.2 million square feet, the additional 295,000 square feet that is coming on line over the next year increases the stock of space faster than markets typically grow. This poses a greater risk of over-capacity and the attendant rise in vacancy and fall in rents.

The Rest of the Picture

The three CBD office markets of all 46 markets scored with the strongest and weakest measures on several variables are listed below.

Highest overall score: **Boston** (green, 88); **Tucson** (green, 86); **Honolulu** (green, 85).

Lowest overall score: **Nashville** (red, 0); **Las Vegas** (red, 0); **Fort Lauderdale** (red, 5).

Least construction: 17 CBD office markets have zero construction in the pipeline, including **Los Angeles** (yellow, 66); **Indianapolis** (yellow, 65) and **San Jose** (yellow, 51).

Most construction: **Las Vegas**, 23.8%; **Fort Lauderdale**, 10.7%; **Nashville**, 9.8%.

Most absorption (better): **Raleigh**, 5.3% (yellow, 60); **Tucson**, 2.5%; **Fort Lauderdale** and **Orlando** (yellow, 63), both 2.4%.

Least absorption: **Detroit**, -2.2% (red, 19); **Miami**, -1.9% (red, 12); **Jacksonville**, -1.3% (yellow, 40).

Best supply-demand relationship (better): **Tucson**, 2.5%; **Minneapolis**, 2.1% (yellow, 58); **Phoenix**, 1.4% (yellow, 64).

Worst supply-demand imbalance: **Las Vegas**, -22.9%; **Nashville**, -9.0%; **Fort Lauderdale**, -8.3%.

Lowest vacancy: **Charlotte**, 3.9% (yellow, 49); **New York**, 4.6% (green, 84); **Washington DC**, 6.4% (yellow, 66).

Highest vacancy: **Dallas**, 24.6% (red, 33); **Wilmington**, 24.0% (red, 7); **Detroit**, 23.5%.

<i>Figure 11</i> CBD Office Market Diagnostic				
	Vacancy High OR Increased Significantly		Vacancy Moderate OR Increased Somewhat	Vacancy Low OR Stable to Falling
Supply Significantly Greater Than Demand OR Supply Growth Alone Very High	Red (0-16) Las Vegas 0 Nashville 0 Fort Lauderdale 5 Wilmington 7 Miami 12		Red (17-33)	Yellow (34-66) Charlotte 49 Seattle 62 Washington DC 66
Supply Somewhat Greater Than Demand OR Supply Growth Alone Somewhat High	Red (17-33) Detroit 19 Atlanta 33 Dallas 33		Yellow (34-66) Sacramento 42 Chicago 56 Philadelphia 56 Fort Worth 63 Salt Lake City 65 San Francisco 67	Green (67-83)
Supply No More Than Slightly Greater Than Demand OR Supply Growth Alone Restrained	Yellow (34-66) Cleveland 37 Albuquerque 38 Jacksonville 40 St. Louis 42 Hartford 48 Memphis 49 Columbus 50 San Jose 51 Kansas City 52 Austin 55 San Diego 55	Green (67-83) Cincinnati 57 Pittsburgh 57 Minneapolis 58 Raleigh 60 Tampa 61 Orlando 63 Phoenix 64 Oakland 65 Indianapolis 65 Los Angeles 66	Green (67-83) Houston 72 Denver 73 Baltimore 76 Portland 83 COMPOSITE 68	Green (84-100) New York 84 Honolulu 85 Tucson 86 Boston 88

SUBURBAN OFFICE DEMAND INCREASES WHILE VACANCY DECLINES

The suburban office sector remained yellow but reversed course after four consecutive quarters of falling scores, picking up a point to 47. Nationwide, new construction remained flat at 2.8%, but for the first time in over a year, expected growth in demand increased, albeit slightly, from 0.7% last quarter to 0.8%. This means that although the supply pipeline is still somewhat greater than anticipated absorption, the supply-demand imbalance tightened a little bit to -2.0% from -2.1% last quarter.

With new supply leveling off in suburban markets and climbing in the CBD segment, the suburban pipeline is now less than twice the CBD pipeline, a metric not achieved since the end of last year. Likewise, with demand holding steady in CBDs and inching upward in the suburbs, the supply-demand imbalances are converging somewhat; in the suburbs the mismatch is -2.0%, and in downtown areas it is -1.2%, compared to -2.1% and -0.7% in the last period. Still, increases to supply in the suburban markets are prevalent, as only two markets have zero construction pipelines, and in ten markets additional supply is expected to increase inventory by more than 5.0%.

The composite vacancy rate fell to 13.9%, down from 14.1% last quarter and 14.2% a year ago. If the supply pipeline remains in check and demand continues to increase or even stay the same, the notion of improving vacancy rates might hold water.

<i>Figure 12</i> Suburban Office Markets That Improved or Deteriorated		
BETTER: Red ⇒ Yellow	BETTER: Yellow ⇒ Green	BETTER: Red ⇒ Green
Columbus (29 → 42) Nashville (17 → 34) Orange County (30 → 40) Riverside (22 → 55)		
WORSE: Green ⇒ Yellow	WORSE: Yellow ⇒ Red	WORSE: Green ⇒ Red
Albuquerque (72 → 51)	Baltimore (40 → 30) Cleveland (34 → 33) Miami (36 → 21)	

Supply Outpaces Demand in the Top Ten

In the complete opposite scenario to its CBD counterpart, and even though the suburban composite score increased a point, more suburban office markets deteriorated (26) than improved (20), and six remained unchanged. The ten largest suburban markets only comprise roughly half of all the space, so their impact on the overall score is not as powerful as in the CBD segment. Similar to last quarter, only one of the ten largest markets is green, while the remaining nine are in yellow territory. Four of the ten markets improved in score, four deteriorated, and two had no change. **Atlanta** (yellow, 59) saw the biggest improvement, picking up seven points, while the only green market, **Los Angeles** (73), dropped the most, losing six points.

In nine of the ten markets supply still outpaces demand. Construction is up in six of the ten markets, led by **Washington DC** (yellow, 49) with the largest pipeline at 3.8%. In **New York** (yellow, 60) new supply is expected to increase inventory 0.4%, the smallest increase of the top ten. In terms of demand, six markets showed increased demand, three were unchanged, and one market, **Philadelphia** (yellow, 58) had a slight decline, -0.3%.

Atlanta is the only market in the top ten with a positive supply-demand relationship at 0.2%, an improvement over last quarter's -0.2%. The smallest mismatch is in **Dallas** (yellow, 37), at a mere -0.1%, followed by New York at -0.3% and **Boston** (yellow, 56) at -0.6%. The largest imbalances are in Washington DC, -2.5%; **Houston**, -1.8% (yellow, 56); and **Denver** (yellow, 49) and Los Angeles, both -1.1%. **Chicago** (yellow, 36) and Philadelphia fall in the middle with mismatches of -0.9% and -1.0%, respectively.

The Worst and the Best of the Rest

The three suburban office markets of all 52 markets scored with the strongest and weakest measures on several variables are listed below.

Highest overall score: **Long Island** (green, 76); **Honolulu** (green, 74); **Los Angeles** (green, 73).

Lowest overall score: **Phoenix** (red, 0); **Las Vegas** (red, 0); **Cincinnati** (red, 4).

Least construction: **Honolulu**, 0.0%; **Tucson**, 0.0% (green, 71); **Newark**, 0.1% (yellow, 62).

Most construction: **Las Vegas**, 11.1%; **Phoenix**, 10.8%; **Salt Lake City**, 7.3% (red, 23).

Most absorption (better): **Charlotte**, 3.5% (yellow, 52); **Tucson**, 2.9%; **Trenton**, 2.9% (yellow, 54).

Least absorption: **West Palm Beach**, -2.6% (red, 5); **Detroit**, -2.1% (red, 27); **Miami**, -1.8% (red, 21).

Best supply-demand relationship (better): **Tucson**, 2.9%; **Oakland**, 1.7% (yellow, 57); **Charlotte**, 0.8%.

Worst supply-demand imbalance: **Las Vegas**, -10.5%; **Ventura County**, -8.5% (red, 13); **Phoenix**, -8.2%.

Lowest vacancy: **Ventura County**, 7.8%; **Los Angeles**, 8.5% (green, 73); **Riverside**, 9.0% (yellow, 55).

Highest vacancy: **Dallas**, 21.3% (yellow, 37); **Cincinnati**, 21.3%; **Edison**, 20.3% (yellow, 43).

<i>Figure 13</i>					
Suburban Office Market Diagnostic					
	Vacancy High OR Increased Significantly		Vacancy Moderate OR Increased Somewhat		Vacancy Low OR Stable to Falling
	Red (0-16)		Red (17-33)		Yellow (34-66)
Supply Significantly Greater Than Demand OR Supply Growth Alone Very High	Las Vegas 0	West Palm Beach 5	Miami 21	San Jose 41	
	Phoenix 0	San Diego 11	Austin 22		
	Cincinnati 4	Ventura County 13	Salt Lake City 23		
Supply Somewhat Greater Than Demand OR Supply Growth Alone Somewhat High	Red (17-33)		Yellow (34-66)		Green (67-83)
	Detroit 27		Nashville 34	Washington DC 49	Los Angeles 73
	Jacksonville 27		Kansas City 37	Albuquerque 51	
	Baltimore 30		Seattle 39	Riverside 55	
	Indianapolis 30		Orange County 40	Fort Lauderdale 56	
	Cleveland 33		Orlando 41	Houston 56	
			Wilmington 44	Philadelphia 58	
			Tampa 49	San Francisco 58	
			COMPOSITE 47		
Supply No More Than Slightly Greater Than Demand OR Supply Growth Alone Restrained	Yellow (34-66)		Green (67-83)		Green (84-100)
	Chicago 36	Portland 53	Minneapolis 70		
	Dallas 37	Trenton 54	Stamford 70		
	Columbus 42	Boston 56	Tucson 71		
	Edison 43	Oakland 57	Honolulu 74		
	Sacramento 45	Atlanta 59	Long Island 76		
	Fort Worth 47	New York 60			
	Denver 49	St. Louis 61			
	Hartford 51	Newark 62			
	Charlotte 52				

INDUSTRIAL HOLDS STEADY AS ABSORPTION SLOWS SLIGHTLY

The industrial sector held steady with an unchanged composite score of green, 69. The construction pipeline remained stable at 1.1%; however additions to supply were higher than the previous quarter for 30 markets versus lower forecasts for only 16 markets. A very slight softening in demand to 0.8% from 0.9% means a marginally wider supply-demand imbalance of -0.3%, down from -0.2% last quarter.

Vacancy levels remained the same as last period at 9.3%, an improvement from the year earlier rate of 9.7%. Though the composite score held its ground, only 17 markets saw scores improve while 24 experienced some decline. There are fewer green markets this quarter as **Fort Lauderdale**, **Miami**, and **West Palm Beach** slid into yellow territory. **Jacksonville** continues to slip and now joins **Trenton** and **Wilmington** as a red market.

<i>Figure 14</i> Industrial Markets That Improved or Deteriorated		
BETTER: Red ⇒ Yellow	BETTER: Yellow ⇒ Green	BETTER: Red ⇒ Green
WORSE: Green ⇒ Yellow	WORSE: Yellow ⇒ Red	WORSE: Green ⇒ Red
Fort Lauderdale (69 → 65) Miami (76 → 63) West Palm Beach (68 → 56)	Jacksonville (63 → 28)	

New construction is expected to outpace absorption for the third consecutive quarter with all but two markets anticipating increases to inventory over the next year. Although additional supply is widespread, the pace is small, as 29 markets expect an increase of less than 1.0%. In **Hartford** (yellow, 62) and **Tucson** (green, 90) no new construction is projected, and only **Riverside** (yellow, 41) and **Las Vegas** (yellow, 64) expect the inventory to increase by more than 3.0%.

While construction remains in check and therefore not a challenge to market well being, the same is not true for demand expectations, which have decreased since last quarter for 37 markets, nearly three-quarters of the industrial sector. The lowest projected absorption is in **Jacksonville** (red, 28) at -1.8%, and, coupled with a construction pipeline of 2.2%, the supply-demand mismatch is the greatest of all markets at -4.1%. The slower absorption rates leave 28 markets, or over half, with negative supply-demand relationships.

Composite vacancy levels remained flat, yet vacancy trends improved as only 15 markets have vacancy rates in excess of 10%, compared to 18 markets last quarter and 20 markets a year ago. The lowest vacancy rates are in **Los Angeles** (green, 90) at 4.4%; **Las Vegas** and **San Francisco** (green, 69), both 5.2%. Year-over-year vacancy declined in 34 of the 51 markets, led by **Austin** (yellow, 57), down to 8.8% versus 12.6% a year ago. Although vacancy increased in 17 markets year-over-year, only six markets saw increases of more than 1.0%. The largest increases were in the same three markets that fell from green to yellow this quarter: **West Palm Beach** (yellow, 56) is up from 3.2% to 7.6%; **Fort Lauderdale** (yellow, 65) is up from 4.7% to 6.3%; and **Miami** (yellow, 63) is up from 5.0% to 6.3%.

The Rest

The three industrial markets of all 51 markets scored with the strongest and weakest measures on several variables are listed below.

Highest overall score: **Los Angeles** (green, 90); **Tucson** (green, 90); **Portland** (green, 86).

Lowest overall score: **Wilmington** (red, 14); **Trenton** (red, 16); **Jacksonville** (red, 28).

Least construction: **Hartford**, 0.0% (yellow, 62); **Tucson**, 0.0%; **Long Island**, 0.1% (green, 78).

Most construction: **Riverside**, 6.1% (yellow, 41); **Las Vegas**, 4.1% (yellow, 64); **Phoenix**, 3.0% (yellow, 50).

Most absorption (better): **Riverside**, 5.4%; **Las Vegas**, 4.2%; **Tucson**, 2.7%.

Least absorption: **Jacksonville**, -1.8%; **Wilmington**, -1.7%; **Hartford** and **San Francisco** (green, 69), both -1.3%.

Best supply-demand relationship (better): **Tucson**, 2.7%; **Boston**, 1.0% (yellow, 53); **San Jose**, 0.9% (green, 72).
Worst supply-demand imbalance: **Jacksonville**, -4.1%; **Trenton**, -3.8%; **Wilmington**, -3.3%.
Lowest vacancy: **Los Angeles**, 4.4%; **Las Vegas**, 5.2%; **San Francisco**, 5.2%.
Highest vacancy: **Detroit**, 15.8% (yellow, 45); **Boston**, 15.6%; **Baltimore**, 13.8% (yellow, 56).

<i>Figure 15</i>			
Industrial Market Diagnostic			
	Vacancy High OR Increased Significantly	Vacancy Moderate OR Increased Somewhat	Vacancy Low OR Stable to Falling
Supply Significantly Greater Than Demand OR Supply Growth Alone Very High	Red (0-16) Wilmington 14 Trenton 16	Red (17-33) Jacksonville 28	Yellow (34-66) Las Vegas 64
Supply Somewhat Greater Than Demand OR Supply Growth Alone Somewhat High	Red (17-33)	Yellow (34-66) Washington DC 38 Riverside 41 Edison 43 Chicago 47 Phoenix 50 Dallas 51 Austin 57	Green (67-83) Charlotte 58 Nashville 62 Hartford 62 Miami 63 Tampa 63 Fort Lauderdale 65 San Francisco 69 Albuquerque 79
Supply No More Than Slightly Greater Than Demand OR Supply Growth Alone Restrained	Yellow (34-66) Detroit 45 Boston 53 Columbus 55 Stamford 55 Baltimore 56 West Palm Beach 56 Atlanta 63 St. Louis 65 Sacramento 66	Green (67-83) Philadelphia 67 San Diego 67 Cincinnati 68 Denver 68 Fort Worth 70 Indianapolis 72 San Jose 72 Cleveland 73 Houston 74 Ventura County 74	Green (84-100) Oakland 75 Orlando 76 Kansas City 77 New York 77 Long Island 78 Seattle 79 Minneapolis 82 Newark 82 Salt Lake City 83 Orange County 84 Portland 86 Los Angeles 90 Tucson 90
		COMPOSITE 69	

FULL-SERVICE HOTELS PULL BACK AS FORECASTED DEMAND SOFTENS

The full-service hotel sector pulled back this quarter, losing two points for a composite score of 64. The set-back is largely attributed to significant deterioration in the supply-demand imbalance. Forecasted new supply growth increased to 3.6%, outpacing last quarter (2.7%) and the three-year record of 2.8% set in fourth quarter of 2006. At the same time, demand is expected to soften, with the year-forward forecast of growth in revenue per available room (RevPAR) at -1.0% compared to -0.3% last quarter and -0.1% one year ago. The result is a supply-demand disequilibrium of -4.6%, wider than last quarter (-3.0%) and a year ago (-2.2%).

On a positive note, current RevPAR broadly exceeded the baseline target (the average of 1998 and 1999 RevPAR adjusted for inflation and seasonality) by 2.6%. Last quarter the deviation was 0.2% and a year ago it was -0.1%. Year-over-year growth in composite RevPAR held solid at 6.3% for a second quarter. As such, the relationship between current RevPAR and the baseline should continue to improve.

Overall, 28 of the 49 markets dropped in score this quarter, while only 25 markets improved. Eight markets worsened in color with one market, **Baltimore** (red, 9) sliding into red territory.

The score for the **New York** market remained green but fell slightly, from 94 to 70, due to robust supply which is expected to face slightly softer demand growth in the event of a macro-level slowdown. However, the strength of the Euro relative to the US dollar could prop up hotel demand from European visitors, which could in turn negate any softening of demand. In short, the current score for the New York full-service hotel market might well be more negative than it needs to be.

Also included among the markets with the greatest deterioration in score were **Raleigh** (yellow, 48), losing 35 points, **West Palm Beach** (yellow, 43), losing 34 points and **San Diego** (yellow, 45), 24 points. In Baltimore and San Diego deterioration in the market supply-demand imbalance drove scores lower, as both markets demonstrated imbalances greater than -10%. In West Palm Beach, supply picked up and projected demand is down, resulting in a less robust supply-demand relationship of 1.1% versus 7.1% last quarter. The lower score for Raleigh is attributable to significant pick-up in forecasted supply (7.4%) versus last quarter (1.4%).

The quarter's best performing market, **Los Angeles** (green, 82), held steady due to continued year-over-year growth in RevPAR (7.0%) and current RevPAR exceeding the baseline target by 23.6%. Similarly, 22 of 49 markets exceed their baseline RevPAR targets versus 20 in the last quarter. Seven markets surpassed the baseline by more than 20%, including **Orange County** (green, 73), **Miami** (yellow, 49), **Fort Worth** (yellow, 51), Los Angeles, **Honolulu** (green, 72), **Fort Lauderdale** (yellow, 56) and **New York** (green, 70). Conversely, only two markets lag their respective targets by more than 20% as compared to four markets last period and six markets one year ago. **Trenton** (red, 18) continues to lag more than any other market at 26.8% off its baseline, followed by **Cleveland** (yellow, 41), 20.1%.

Figure 16

Full-Service Hotel Markets That Improved or Deteriorated

BETTER: Red ⇒ Yellow	BETTER: Yellow ⇒ Green	BETTER: Red ⇒ Green
Cincinnati (30 → 46) Fort Worth (33 → 51) Miami (5 → 49)	Charlotte (46 → 69) Edison (43 → 69) Nashville (64 → 72) Pittsburgh (39 → 70)	
WORSE: Green ⇒ Yellow	WORSE: Yellow ⇒ Red	WORSE: Green ⇒ Red
Long Island (74 → 61) Orlando (72 → 61) Raleigh (83 → 48) San Diego (69 → 45) Tucson (73 → 64) Washington DC (70 → 55) West Palm Beach (77 → 43)	Baltimore (52 → 9)	

The Best and the Worst

The three full-service hotel markets of all 49 markets scored with the strongest and weakest measures on several variables are listed below.

Highest overall score: **Los Angeles** (green, 82); **Philadelphia** (green, 78); **Orange County** (green, 73).

Lowest overall score: **San Antonio** (red, 0); **Baltimore** (red, 9); **Trenton** (red, 18).

Least construction: **Charlotte** (yellow, 69), **Edison** (green, 69), **Honolulu** (green, 72) and **Pittsburgh** (green, 70), all four with zero construction.

Most construction: **San Antonio**, 16.0%; **Baltimore**, 8.5%; **San Diego**, 7.9% (yellow, 45).

Most expected growth in RevPAR: **Edison**, 8.9%; **Oakland**, 8.4% (yellow, 64); **Honolulu**, 7.3%.

Least expected growth in RevPAR: **Miami**, -7.4% (yellow, 49); **Pittsburgh**, -5.9%; **Denver**, -5.7% (yellow, 45).

Best supply-demand relationship (better): **Edison**, 8.9%; **Honolulu**, 7.3%; **Oakland**, 7.3%.

Worst supply-demand imbalance: **San Antonio**, -21.2%; **Miami**, -13.0%; **Denver**, -12.2%.

Highest margin over baseline RevPAR: **Fort Worth**, 35.7% (yellow, 51); **Orange County**, 35.1%; **Washington DC**, 32.4% (yellow, 55).

Smallest margin over baseline RevPAR (or greatest lag): **Trenton**, -16.6%; **Oakland**, -15.6%; **Detroit**, -14.9% (red, 31).

Figure 17
Full-Service Hotel Market Diagnostic

	RevPAR Year-over-Year Declined OR Down Significantly From Base	RevPAR Year-over-Year Increased Somewhat OR Down Somewhat From Base	RevPAR Year-over-Year Increased Significantly OR Up From Base
Supply Significantly Greater Than Demand OR Supply Growth Alone Very High	Red (0-16) San Antonio 0 Baltimore 9 Trenton 18	Red (17-33)	Yellow (34-66) Cleveland 41 Minneapolis 43 Denver 45 San Diego 45 Cincinnati 46 Chicago 48 Indianapolis 48 Phoenix 48 Raleigh 48 St. Louis 48 Miami 49 Fort Worth 51 Richmond 52 Portland 54 Washington DC 55 Fort Lauderdale 56 Memphis 57 Seattle 59 Austin 60 Albuquerque 63 Tucson 64 COMPOSITE 64
Supply Somewhat Greater Than Demand OR Supply Growth Alone Somewhat High	Red (17-33) Dayton 27 Detroit 31 Boston 33	Yellow (34-66) Columbus 38 West Palm Beach 43 Atlanta 50 Tampa 58	Green (67-83) Charlotte 69 New York 70 Pittsburgh 70 Houston 72 Nashville 72 Orange County 73 Philadelphia 78 Los Angeles 82
Supply No More Than Slightly Greater Than Demand OR Supply Growth Alone Restrained	Yellow (34-66) Dallas 43 San Francisco 50 Hartford 52 Newark 53 Kansas City 59 Long Island 61 Orlando 61 Oakland 64	Green (67-83) Edison 69 Honolulu 72	Green (84-100)

LIMITED-SERVICE HOTELS MAY BE APPROACHING PEAK IN REVPAR GROWTH

The limited-service hotel sector held steady this quarter with a composite score of 82. Strength in the sector continues in large part due to growth in RevPAR, which increased this quarter 6.6% from a year earlier, a slight acceleration compared to the 5.3% growth last quarter. However, the relationship between current RevPAR and the baseline target, although positive at 0.3%, is not as robust as last quarter (4.5%).

Forward demand expectations remain in line with historical levels, strengthening to 6.0%, compared to 5.2% last quarter, but falling slightly short of demand expectations from a year ago (6.2%). Forecasted construction continues to be below 2.0%, as has been the case for the past four quarters, at a pace of 1.4%. As a result, the sector maintains its positive supply-demand relationship of 4.6%, a 0.9% improvement over last quarter (3.7%).

Staying healthy and green, 29 of the 48 markets experienced score increases, six of which saw improvement in color. Overall the quarter yielded a total of 35 green markets, five more than last quarter. There is only one red market, **Hartford** (30), which lost 8 points and slipped from yellow territory. The two red markets from the previous quarter, **Detroit** (yellow, 43) and **Trenton** (yellow, 54) improved in color, contributing to the total of 12 yellow markets.

The Detroit score improved markedly this quarter from last quarter, but the market is actually more stable than the change in score would imply. The score for the first quarter of this year was ratcheted down because some variables, such as year-over-year change in RevPAR, were artificially *low* in 2007 relative to data inflated in 2006 due to Detroit hosting the Super Bowl in that year. The same holds true for the full-service hotel sector. All but five markets saw positive RevPAR growth. Of those five markets, none suffered deterioration in year-over-year growth more than 10.0%. **West Palm Beach** (yellow, 57) saw the greatest decline in growth at -9.4% followed by **Fort Lauderdale** (yellow, 58), -9.2%; **Baltimore** (green, 77), -2.2%; **Tampa** (green, 78), -2.0%; and **Orlando** (yellow, 42), -0.4%. In all cases but Orlando, the negative RevPAR growth is offset by the market RevPAR broadly exceeding the respective baseline target.

The market with the greatest deterioration in score was **New York** (yellow, 63) which lost 20 points, predominantly driven by a drop-off in forecasted demand. As in the full-service sector, the anticipated slowdown in demand growth could fail to materialize if the Euro-dollar relationship remains in favor of additional Euro-tourism. Current RevPAR still lags the baseline target by 2.5%, but this is an improvement over last quarter's -6.5% gap.

Figure 18

Limited-Service Hotel Markets That Improved or Deteriorated		
BETTER: Red ⇒ Yellow	BETTER: Yellow ⇒ Green	BETTER: Red ⇒ Green
Detroit (11 → 43) Trenton (31 → 54)	Edison (57 → 70) Fort Worth (60 → 82) Kansas City (57 → 68) Miami (55 → 74) Minneapolis (66 → 72) Nashville (66 → 77)	
WORSE: Green ⇒ Yellow	WORSE: Yellow ⇒ Red	WORSE: Green ⇒ Red
New York (83 → 63)	Hartford (38 → 30)	

The Rest of the Story

The three limited-service hotel markets of all 48 markets scored with the strongest and weakest measures on several variables are listed below.

Highest overall score: **Austin** (green, 98); **Houston** (green, 97); **San Diego** (green, 91).

Lowest overall score: **Hartford** (red, 30); **Boston** and **Orlando** (yellow, 42).

Least construction: 10 markets have zero construction, including **Denver** (green, 88), **Philadelphia** (green, 86), and **Albuquerque** (green, 85).

Most construction: **Hartford**, 4.4%; **Phoenix**, 3.8% (green, 78); **Boston**, 3.3%.

Most expected growth in RevPAR: **Washington DC**, 15.7% (green, 89); **Tampa**, 15.3% (green, 78); **Phoenix**, 15.0%.
Least expected growth in RevPAR: **Minneapolis**, -4.4% (green, 72); **Trenton**, -2.9% (yellow, 54); **Hartford**, -2.7%.
Best supply-demand relationship (better): **Tampa**, 14.5%; **Washington DC**, 14.1%; **Baltimore**, 12.1% (green, 77).
Worst supply-demand imbalance: **Hartford**, -7.1%; **Minneapolis**, -5.0%; **Kansas City**, -4.5% (green, 68).
Highest margin over baseline RevPAR: **Los Angeles**, 44.0% (green, 89); **West Palm Beach**, 35.6% (yellow, 57); **Miami**, 33.5% (green, 74).
Smallest margin over baseline RevPAR (or greatest lag): **Detroit**, -23.1% (yellow, 42); **Orlando**, -16.1%; **Edison**, -14.5% (green, 70).

Figure 19
Limited-Service Hotel Market Diagnostic

	RevPAR Year-over-Year Declined OR Down Significantly From Base	RevPAR Year-over-Year Increased Somewhat OR Down Somewhat From Base	RevPAR Year-over-Year Increased Significantly OR Up From Base
Supply Significantly Greater Than Demand OR Supply Growth Alone Very High	Red (0-16)	Red (17-33) Hartford 30	Yellow (34-66) San Antonio 58
Supply Somewhat Greater Than Demand OR Supply Growth Alone Somewhat High	Red (17-33)	Yellow (34-66) Boston 42 Trenton 54 Newark 59 New York 63 Indianapolis 64 Chicago 66	Green (67-83) Kansas City 68 Minneapolis 72 Columbus 74 Miami 74 St. Louis 76 Nashville 77 Pittsburgh 78 Portland 79 Fort Worth 82 Long Island 83
Supply No More Than Slightly Greater Than Demand OR Supply Growth Alone Restrained	Yellow (34-66) Orlando 42 Detroit 43 Dayton 55 West Palm Beach 57 Fort Lauderdale 58	Green (67-83) Cleveland 68 Cincinnati 70 Edison 70 Oakland 74 Baltimore 77 Phoenix 78 Tampa 78 Atlanta 80 San Francisco 80 COMPOSITE 82	Green (84-100) Dallas 84 Charlotte 84 Albuquerque 85 Raleigh 85 Seattle 85 Philadelphia 86 Richmond 86 Denver 88 Tucson 88 Los Angeles 89 Memphis 89 Orange County 89 Washington DC 89 San Diego 91 Houston 97 Austin 98

Figure 20
Assessment of Each Market by Property Type
 (Red = less than 33; Yellow = 34-66; Green = 67 or more)

	MF	Retail	Office: CBD	Office: Sub.	Industrial	Hotel: Full-Svc.	Hotel: Ltd.-Svc.
COMPOSITE	G: 83	G: 82	G: 68	Y: 47	G: 69	Y: 64	G: 82
Albuquerque NM	Y: 65	G: 78	Y: 38	Y: 51	G: 79	Y: 63	G: 85
Atlanta GA	Y: 64	Y: 62	R: 33	Y: 59	Y: 63	Y: 50	G: 80
Austin TX	G: 67	G: 75	Y: 55	R: 22	Y: 57	Y: 60	G: 98
Bakersfield CA	N.D.	G: 91	N.D.	N.D.	N.D.	N.D.	N.D.
Baltimore MD	G: 84	G: 73	G: 76	R: 30	Y: 56	R: 9	G: 77
Birmingham AL	G: 73	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
Boston MA	G: 87	G: 87	G: 88	Y: 56	Y: 53	R: 33	Y: 42
Charlotte NC	G: 69	G: 82	Y: 49	Y: 52	Y: 58	G: 69	G: 84
Chicago IL	G: 70	G: 80	Y: 56	Y: 36	Y: 47	Y: 48	Y: 66
Cincinnati OH	G: 85	G: 83	Y: 57	R: 4	G: 68	Y: 46	G: 70
Cleveland OH	G: 68	G: 89	Y: 37	R: 33	G: 73	Y: 41	G: 68
Columbus OH	G: 76	G: 84	Y: 50	Y: 42	Y: 55	Y: 38	G: 74
Dallas TX	G: 81	Y: 66	R: 33	Y: 37	Y: 51	Y: 43	G: 84
Dayton OH	G: 75	N.D.	N.D.	N.D.	N.D.	R: 27	Y: 55
Denver CO	G: 85	Y: 60	G: 73	Y: 49	G: 68	Y: 45	G: 88
Detroit MI	G: 89	G: 93	R: 19	R: 27	Y: 45	R: 31	Y: 43
Edison NJ	G: 75	G: 76	N.D.	Y: 43	Y: 43	G: 69	G: 70
El Paso TX	G: 69	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
Ft. Lauderdale FL	G: 88	Y: 52	R: 5	Y: 56	Y: 65	Y: 56	Y: 58
Ft. Worth TX	G: 72	Y: 64	Y: 63	Y: 47	G: 70	Y: 51	G: 82
Fresno CA	N.D.	G: 87	N.D.	N.D.	N.D.	N.D.	N.D.
Greensboro NC	G: 77	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
Greenville SC	G: 79	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
Hartford CT	N.D.	N.D.	Y: 48	Y: 51	Y: 62	Y: 52	R: 30
Honolulu HI 1	G: 88	G: 75	G: 85	G: 74	N.D.	G: 72	N.D.
Houston TX	Y: 65	G: 80	G: 72	Y: 56	G: 74	G: 72	G: 97
Indianapolis IN	G: 82	G: 79	Y: 65	R: 30	G: 72	Y: 48	Y: 64
Jacksonville FL	Y: 40	Y: 56	Y: 40	R: 27	R: 28	N.D.	N.D.
Kansas City KS-MO	G: 77	G: 68	Y: 52	Y: 37	G: 77	Y: 59	G: 68
Las Vegas NV	Y: 62	G: 71	R: 0	R: 0	Y: 64	N.D.	N.D.
Long Island NY	N.D.	G: 90	N.D.	G: 76	G: 78	Y: 61	G: 83
Los Angeles CA	G: 80	G: 96	Y: 66	G: 73	G: 90	G: 82	G: 89
Louisville KY	G: 90	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
Memphis TN	G: 70	N.D.	Y: 49	N.D.	N.D.	Y: 57	G: 89
Miami FL	G: 72	G: 87	R: 12	R: 21	Y: 63	Y: 49	G: 74
Minneapolis MN	G: 89	G: 91	Y: 58	G: 70	G: 82	Y: 43	G: 72

Figure 20 (Continued)

Assessment of Each Market by Property Type
 (Red = less than 33; Yellow = 34-66; Green = 67 or more)

	MF	Retail	Office: CBD	Office: Sub.	Industrial	Hotel: Full-Svc.	Hotel: Ltd.-Svc.
Nashville TN	G: 93	Y: 63	R: 0	Y: 34	Y: 62	G: 72	G: 77
New Orleans LA	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
New York NY	G: 82	G: 95	G: 84	Y: 60	G: 77	G: 70	Y: 63
Newark NJ	G: 77	G: 97	N.D.	Y: 62	G: 82	Y: 53	Y: 59
Norfolk VA	G: 87	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
No. New Jersey NJ	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
Oakland CA	G: 78	G: 86	Y: 65	Y: 57	G: 75	Y: 64	G: 74
Oklahoma City OK	G: 86	Y: 63	N.D.	N.D.	N.D.	N.D.	N.D.
Orange Cty. CA	G: 74	G: 72	N.D.	Y: 40	G: 84	G: 73	G: 89
Orlando FL	Y: 59	G: 67	Y: 63	Y: 41	G: 76	Y: 61	Y: 42
Philadelphia PA	Y: 53	G: 81	Y: 56	Y: 58	G: 67	G: 78	G: 86
Phoenix AZ	Y: 66	Y: 48	Y: 64	R: 0	Y: 50	Y: 48	G: 78
Pittsburgh PA	G: 100	N.D.	Y: 57	N.D.	N.D.	G: 70	G: 78
Portland OR	G: 84	Y: 45	G: 83	Y: 53	G: 86	Y: 54	G: 79
Raleigh NC	G: 76	N.D.	Y: 60	N.D.	N.D.	Y: 48	G: 85
Richmond VA	G: 90	N.D.	N.D.	N.D.	N.D.	Y: 52	G: 86
Riverside CA	G: 74	Y: 66	N.D.	Y: 55	Y: 41	N.D.	N.D.
Sacramento CA	G: 82	Y: 65	Y: 42	Y: 45	Y: 66	N.D.	N.D.
St. Louis MO	G: 86	G: 76	Y: 42	Y: 61	Y: 65	Y: 48	G: 76
Salt Lake City UT	G: 75	G: 89	Y: 65	R: 23	G: 83	N.D.	N.D.
San Antonio TX	Y: 60	N.D.	N.D.	N.D.	N.D.	R: 0	Y: 58
San Diego CA	G: 72	G: 67	Y: 55	R: 11	G: 67	Y: 45	G: 91
San Francisco CA	G: 78	G: 99	G: 67	Y: 58	G: 69	Y: 50	G: 80
San Jose CA	G: 89	G: 82	Y: 51	Y: 41	G: 72	N.D.	N.D.
Seattle WA	G: 68	G: 89	Y: 62	Y: 39	G: 79	Y: 59	G: 85
Stamford CT	N.D.	N.D.	N.D.	G: 70	Y: 55	N.D.	N.D.
Tampa FL	G: 78	G: 79	Y: 61	Y: 49	Y: 63	Y: 58	G: 78
Trenton NJ	N.D.	G: 74	N.D.	Y: 54	R: 16	R: 18	Y: 54
Tucson AZ	G: 73	G: 74	G: 86	G: 71	G: 90	Y: 64	G: 88
Tulsa OK	G: 74	N.D.	N.D.	N.D.	N.D.	N.D.	N.D.
Ventura County CA	N.D.	G: 67	N.D.	R: 13	G: 74	N.D.	N.D.
Washington DC	G: 82	G: 77	Y: 66	Y: 49	Y: 38	Y: 55	G: 89
W. Palm Beach FL	Y: 63	Y: 51	N.D.	R: 5	Y: 56	Y: 43	Y: 57
Wilmington DE	N.D.	G: 91	R: 7	Y: 44	R: 14	N.D.	N.D.

N.D. No data.

1 For the hotel sector, the data is for Oahu Island rather than Honolulu.

Figure 21

Market Score: Average of All Property Types

The average is a straight average of all property types for which a score is calculated in each market. For the office sector, this average is based on a metro-area score, a weighted average of the CBD and suburban scores. Similarly, for hotels, this average is based on a weighted average of the full-service and limited-service segments. In both cases, the goal is to count only one office and one hotel score for each market.

Cities marked in bold are those most frequently represented in CMBS transactions.

Market	Average	Market	Average
Los Angeles CA	84	Memphis TN	65
New York NY	80	Sacramento CA	64
Richmond VA	80	Cincinnati OH	64
Long Island NY	79	Cleveland OH	64
Honolulu HI	78	Nashville TN	64
Tucson AZ	77	Columbus OH	63
Pittsburgh PA	77	Washington DC	63
Minneapolis MN	77	Stamford CT	63
Newark NJ	75	Austin TX	62
Oklahoma City OK	74	Atlanta GA	61
Oakland CA	74	Fort Lauderdale FL	61
San Francisco CA	73	Edison NJ	61
Houston TX	73	Orlando FL	61
US COMPOSITE	72	Chicago IL	60
San Jose CA	72	Dayton OH	59
Seattle WA	71	Miami FL	59
Orange County CA	70	Dallas TX	59
Albuquerque NM	69	Riverside CA	59
St. Louis MO	69	Baltimore MD	58
Salt Lake City UT	69	Detroit MI	58
Portland OR	69	San Diego CA	57
Raleigh NC	68	Hartford CT	52
Philadelphia PA	68	Ventura County CA	51
Tampa FL	68	Phoenix AZ	45
Charlotte NC	68	San Antonio TX	45
Indianapolis IN	67	Las Vegas NV	45
Boston MA	66	West Palm Beach FL	44
Denver CO	66	Wilmington DE	44
Kansas City KS	66	Trenton NJ	43
Fort Worth TX	65	Jacksonville FL	39

Averages are not calculated for markets that have a score in only one property type. Those markets, and the property type for which that one score exists, are the following: Bakersfield CA (retail), Birmingham AL (multifamily), El Paso TX (multifamily), Fresno CA (retail), Greensboro NC (multifamily), Greenville SC (multifamily), Louisville KY (multifamily), Norfolk VA (multifamily), Northern New Jersey (multifamily), and Tulsa OK (multifamily). New Orleans typically only has a score in the hotel sector, but it is not possible to generate a hotel score for New Orleans at this time.

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