

## PRESS RELEASE

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### A Tale of Two Californias: Deferrals Differ Greatly Between North & South

Northern and Southern California\* are two economically distinct regions, and their differences have been highlighted by the recent economic cycle.

This analysis by Property & Portfolio Research, using the PPR/Dodge Pipeline, reveals the dramatic construction swings underway in the North during the past two years - from building boom to building bust - while highlighting the steady nature of the South.

PPR/Dodge Pipeline is the most comprehensive database of new and planned construction for commercial real estate in the nation. Updated monthly, delivered via the Web at [www.ppr.info/pipe](http://www.ppr.info/pipe), and backed by an unmatched cadre of researchers, PPR/Dodge Pipeline is the recognized market leader for new construction information.

### Construction Surge in the North Followed by Historic Halt

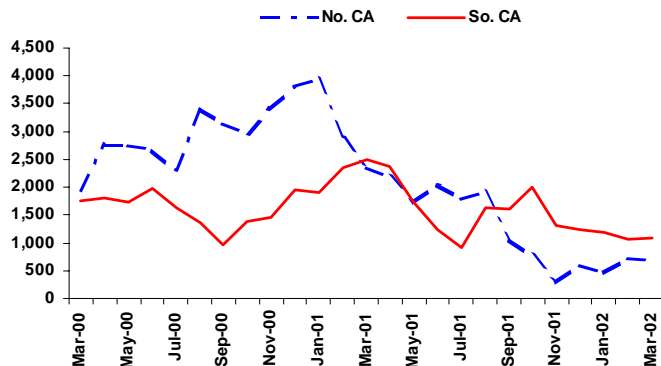
During the late 1990s and into 2000, the booming tech markets propelled new construction in Northern CA across all property types. Venture capital was flowing in, boosting the need for office space, and tech workers required places to live and shop. Southern CA was a steadier performer during this period, and, while construction there was strong, the region did not experience the same kind of surge that Northern CA did. Southern CA has, accordingly, not experienced as sharp a drop in construction.

The biggest gap occurred in the office market. Last year, starts in Northern CA were down 48% from 2000 levels, while starts in Southern CA decreased by just 1%. Since peaking in the fourth quarter of 2000, office starts in Northern CA have dropped off sharply, with starts in the fourth quarter of 2001 down 85% from the prior year's peak levels! It appears that the last quarter of 2001 was the trough, however, as starts have accelerated slightly in the first quarter. A surge in deferred office projects in Northern CA is the main culprit. This trend began in early 2001 with the first signs of the tech wreck, and accelerated throughout the year. The peak occurred in the fourth quarter, with deferrals reaching 19 times the level of the fourth quarter 2000. In Southern CA, deferred projects have also increased, but at a more gradual pace. However, during the first quarter of this year, deferrals increased at a faster rate than occurred last year as financing for office projects, even in Southern CA, has become more difficult to obtain.

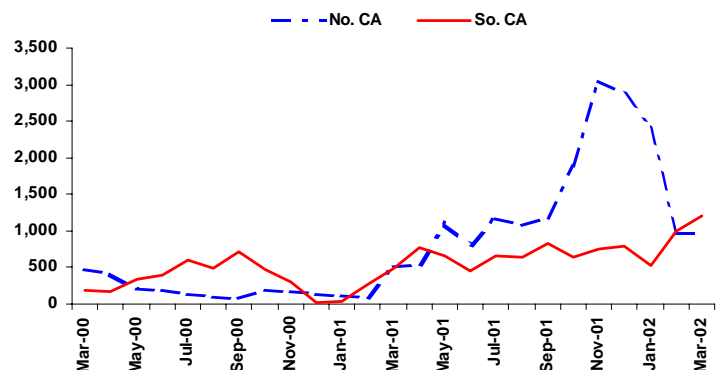
Southern CA has several things in its favor. Its economy is diverse, led by entertainment, defense & aerospace, and distribution & logistics. A continuing stream of imports, propelled by relentless U.S. retail spending, has kept the area's trade corridor moving. And, there is optimism among defense contractors that a heftier federal budget for military expenditures will be dispersed among the region's manufacturers of advanced weapons.

The different economies have impacted the real estate markets, revealing California's double personality in this economic downturn.

Office Construction Starts in Northern and Southern CA  
(3 Month Rolling Average, in Thousands of SF)



Deferred Office Construction in Northern and Southern CA  
(3 Month Rolling Average, in Thousands of SF)



\*Northern CA = San Francisco, San Jose, Oakland-East Bay, and Sacramento; Southern CA = Los Angeles, Orange County, Riverside-San Bernardino, and San Diego

Sources: PPR and McGraw-Hill Construction-Dodge

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