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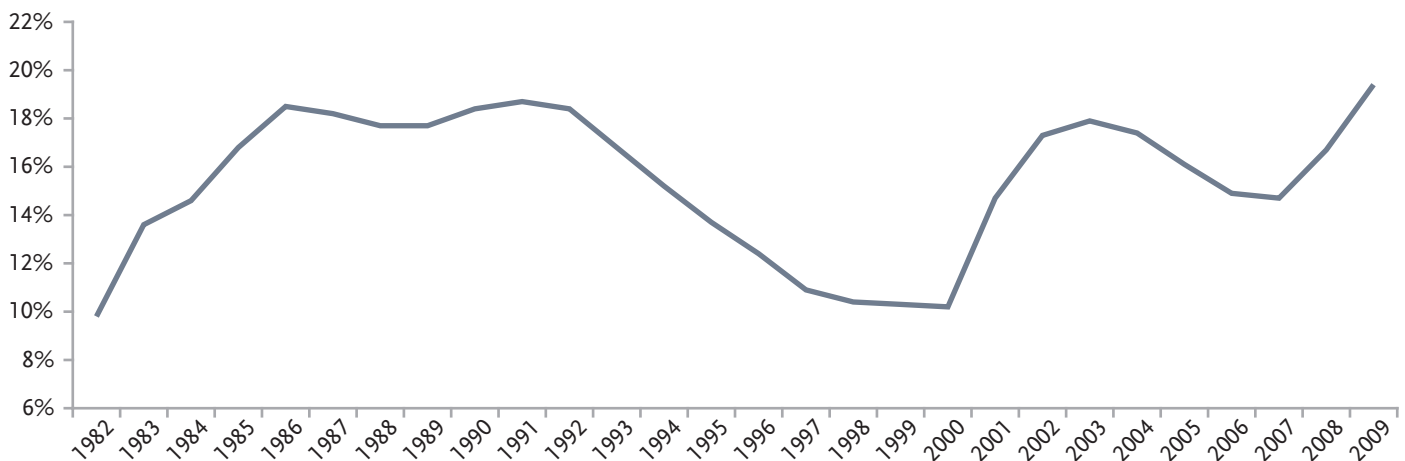
Fixed Income Commentary

Office Vacancy Rates Hit 17-Year High in Second Quarter

Office vacancy rates rose in the second quarter to the highest level since 1993, according to Commercial Real Estate (CRE) research firm Reis. The vacancy rate rose to 17.4% from 17.3% in the first quarter and 16.0% one year ago. Effective rents declined 0.9% sequentially and 5.7% year over year. Office vacancies increased in 49 of 82 cities and effective rents declined in 60 markets. Data compiled by the research firm PPR (see chart below) shows a similar trend, with vacancy rates a bit more elevated than the Reis data suggests.

Meantime, office rents for Class A properties in Midtown Manhattan were essentially unchanged in the second quarter, according to New York-based broker Studley Inc., which reported that average rents fell a slight 0.2% to \$63.24 per square foot versus the prior quarter. While the New York market has not seen positive rent growth, the slowdown in rent declines has some observers optimistic that the New York market may be bottoming. Average rents (Class A) in the city have deteriorated 37% since 1Q 2008. Approximately 13.1% of Midtown space was available as of June 30, down from 13.8% in the first quarter and 15.1% a year ago.

Office Vacancy Rates, 1982-2009



Source: PPR

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